AS BALTIKA ANNUAL REPORT 2013

AS BALTIKA

2013 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

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Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2013 - 31.12.2013

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BALTIKA GROUP IN BRIEF

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating in the Baltic countries and Eastern Europe. Baltika Group operates six retail concepts: Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo and also under franchise agreement Blue Inc. Baltika uses a vertically integrated business model that combines collection design, manufacturing, supply chain management, logistics and retailing. The Group also sells its collections through wholesale. The Group has 124 stores in five markets in the Baltics and Eastern Europe. Baltika's shares are listed on the Tallinn Stock Exchange that is part of the NASDAQ OMX Group.

MISSION AND GOAL

Baltika creates quality fashion that allows people to express themselves and feel great.

Our goal is to be the leading specialist fashion retailer in Baltics and Eastern Europe.

KEY STRATEGIC STRENGTHS

- Learning organisation with high targets
- Flexible, vertically integrated business model
- Centralised management with strong retail organisations in the markets
- Brand portfolio covering a broad customer base

KEY FIGURES AND RATIOS

	2013	2012	2011	2010	2009	2008
Comprehensive income data, in millions						
Revenue	58.3	56.3	53.4	52.2	56.3	76.3
Gross profit	31.2	30.7	28.4	27.0	27.0	40.5
EBITDA	2.3	3.7	-1.4	-1.2	-6.8	1.5
Operating profit	0.7	2.0	-4.5	-4.7	-9.9	-0.4
Profit before income tax	0.3	1.1	-5.8	-5.9	-11.1	-1.3
Net profit	0.1	0.8	-5.9	-6.3	-10.2	-1.2
Financial position data, in millions						
Total assets	24.3	23.5	34.8	39.5	44.9	49.9
Interest-carrying liabilities	5.3	6.3	18.3	19.8	22.2	17.4
Shareholders' equity	11.5	10.2	9.6	12.4	11.9	19.1
Other data						
Number of stores	124	113	115	120	133	134
Sales area in the end of period, sqm	23,852	22,210	23,111	24,424	26,900	27,068
Number of employees (31 Dec)	1,345	1,288	1,363	1,419	1,697	1,988
Key ratios						
Revenue growth	3.6%	5.5%	2.3%	-7.2%	-26.3%	3.7%
Retail sales growth	3.6%	5.2%	5.2%	-5.9%	-23.6%	7.3%
Share of retail sales in revenue	94%	93%	94%	93%	92%	89%
Share of exports in revenue	66%	68%	70%	73%	75%	76%
Gross margin	53.5%	54.5%	53.1%	51.8%	48.0%	53.1%
Operating margin	1.1%	3.5%	-8.3%	-9.0%	-17.6%	-0.5%
EBT margin	0.5%	1.9%	-10.8%	-11.3%	-19.6%	-1.7%
Net margin	0.2%	1.4%	-11.0%	-12.2%	-18.1%	-1.6%
Current ratio	1.5	1.8	1.3	1.6	0.9	1.3
Debt to equity ratio	46.1%	61.6%	190.3%	160.4%	186.3%	91.1%
Net gearing ratio	38.7%	41.2%	181.3%	153.8%	183.1%	88.2%
Inventory turnover	2.09	2.37	2.13	2.30	1.99	2.11

	2013	2012	2011	2010	2009	2008
ROE	1.0%	8.9%	-54.8%	-52.6%	-73.8%	-5.7%
ROA	0.4%	2.8%	-15.1%	-14.9%	-21.2%	-2.6%
Key share data, EUR						
Number of shares outstanding (31 Dec)	40,794,850	35,794,850	35,794,850	27,494,850	18,644,850	18,644,850
Weighted average number of shares	38,644,165	35,794,850	31,629,918	23,348,686	18,644,850	18,644,850
Share price (31 Dec)	0.55	0.57	0.30	1.14	0.73	1.15
Market capitalisation, in millions (31 Dec)	22.3	20.5	10.7	31.3	13.6	21.4
Earnings per share (EPS)	0.00	0.02	-0.19	-0.27	-0.55	-0.06
Diluted earnings per share (DPS)	0.00	0.02	-0.19	-0.27	-0.55	-0.06
Change in EPS, %	-87%	111%	32%	50%	-737%	-146%
P/E	208.2	28.7	Neg.	Neg.	Neg.	Neg.
Book value per share	0.28	0.28	0.27	0.45	0.64	1.02
P/B	1.9	2.1	1.1	2.5	1.1	1.1
Dividend per preference share	0	0.05	0.07	0.01	0	0
Interest rate	0%	0%	10%**	10%**	10%**	0%
Preference share dividend payout ratio	0%	0%	Neg.	Neg.	Neg.	0%
Dividend per share	0*	0	0	0	0	0
Dividend yield	0%*	0%	0%	0%	0%	0%
Dividend payout ratio	0%*	0%	0%	0%	0%	0%

*Proposal to the annual general meeting
**Preference share dividend interest per annum

Any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Definitions of key figures and ratios

EBITDA= Operating profit-depreciation and amortisation - disposal of fixed assets
Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Debt to equity ratio = Interest-carrying liabilities/Equity
Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity
Inventory turnover = Cost of goods sold/Average inventories[1]
Return on equity = Net profit (attributable to parent)/Average equity[1]
Return on assets = Net profit (attributable to parent)/Average total assets[1]
Market capitalisation = Share price (31 Dec)xNumber of shares outstanding (31 Dec)
EPS = Net profit (attributable to parent)/Weighted average number of shares
DPS = Diluted net profit (attributable to parent)/Weighted average number of shares
P/E = Share price (31 Dec)/EPS
Book value per share = Equity/Number of shares outstanding (31 Dec)
P/B = Share price (31 Dec)/Book value per share
Dividend yield = Dividends per share/Share price (31 Dec)
Dividend pay-out ratio = Paid out dividends/Net profit (attributable to parent)
[1]Based on 12-month average

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 6 to 29 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Meelis Milder
Chairman of the Management Board
26 March 2014

Maigi Pärnik-Pernik
Member of the Management Board
26 March 2014

Andrew J. D. Paterson
Member of the Management Board
26 March 2014

Maire Milder
Member of the Management Board
26 March 2014

Kati Kusmin
Member of the Management Board
26 March 2014

MANAGEMENT REPORT

Baltika Group year 2013 profit before tax was 0.3 million euros and net profit 0.1 million euros. First half-year retail revenue showed strong growth (8%) which in the second half-year slowed down (0%). Meanwhile wholesale and e-com sales growth thrived (first half-year 6%, second half-year 33%). In the same time the operating expenses were under control and with reduction in debt level the financial expense decreased, which in total resulted in profit. While the first half-year of 2013 met the expectations of the company, then the negative second half-year developments in Ukraine and Russia with very weak third quarter result do not allow to consider the yearly financial result sufficient.

2013 was a significant year for retail network development – number of stores increased y-o-y by 11 and in addition a larger number of stores were renovated. This should grow sales after the initial post opening period even under tighter competition.

YEAR 2013 HIGHLIGHTS

- In April AS Baltika signed franchise agreement to open Monton fashion stores in Belarus with Belarusian retail operator Valanga OOO. In October, franchise partner opened the first two Monton brand stores in Minsk. The total area of the stores is 380 sqm. According to plan, in the next five years at least five Monton stores, with a sales area of 150-250 sqm, will be opened in Belarus.

- Baltika signed in May a contract as franchisee with A Levy & Son Ltd attaining representation rights of Blue Inc London trademarks in Baltic countries. Regarding Blue Inc London collections, Baltika will focus on offering Blue Inc London menswear for the Baltic markets. In August, the first Blue Inc London store was opened in Riga and thereafter stores were opened in September in Valmiera, Latvia, and in October in Tallinn, Estonia.

- Based on a request received from KJK Fund, Sicav-SIF in June 2013 the conversion of H-bonds to Baltika shares process was started. 5,000,000 Baltika ordinary shares were transferred on 16th July to the securities account of shareholder in Estonian CSD. New shares make up 12.3% of the amount of new total shares. The largest shareholder holding (on ING Luxembourg S.A. account) increased to 30.86%. Baltika now has 40,794,850 ordinary shares with the nominal value of 0.2 euros per share.

- In 2013 Estonian Olympic Committee and Baltika signed a sponsoring agreement for the next four years. Baltika's Monton brand has been the official sponsor of the Estonian Olympic Committee and has supplied official uniforms and leisurewear for the athletes of the Estonian delegation since 2004. At the end of October, Monton presented to the media and the guests of the Estonian Olympic Committee the collection of outfits created for the 2014 Sochi Winter Olympics. Collection that combines the Estonian national colours and ethnic patters received international recognition when Fox Sport, as well as some other international media channels, chose it as one of the best parade outfits. Local success was signified by sold-out fans collection.

- In October, Batman's designer Aivar Lätt *alias* Antonio received the highest recognition in the Estonian fashion world – the Golden Needle award. According to Antonio, his special Baltman Limited Edition collection, which was created for the Golden Needle, represents the essence of his work so far. Baltika's designers have been rewarded with Golden Needle award eight times throughout the years.

- Baltika developed and invested into the retail network, opening 17 new stores in 2013 (also closed 6 stores) which included the first examples of Monton, Mosaic and Baltman new concept stores.

MEETING THE OBJECTIVES OF 2013

- Implement investment plan: launching 10 new stores and renovation of almost 20 stores

  2013 year total investment into retail network amounted to 1.9 million euros. Investments were made into over 30 stores in different capacities. Among them 17 new stores were open: 4 in Estonia, 1 in Lithuania, 6 in Latvia, 3 in Russia and 3 in Ukraine.

- Open Monton (including flagship) and Mosaic new-concept stores

  Baltika has opened new concept flagship stores of its leading brand Monton in shopping centres of Baltic capitals: Viru Center in Tallinn, Galerija Centrs in Riga and Akropolis in Vilnius. New concept store was also opened in Russia in OzMall shopping centre in Krasnodar. First to adopt Mosaic new store concept was Latvia in Spice shopping centre in Riga.

- Develop additional sales channels and grow sales through wholesale and franchise

  Year 2013 was successful for wholesale and the work on strategic direction that begun in 2012 showed results. Revenue grew by 6% in first half-year and 33% in second half-year. Cooperation started with a number of new partners in Finland and Russia in 2013. New franchise agreement as franchisor was signed with Belarusian partner Valanga OOO and the franchise partner opened its first Monton stores in Minsk in the second half-year of 2013.

- Increase E-store sales

  Monton E-store that was opened in 2012 showed thriving business growth in 2013. E-store has served clients from 24 countries and the revenue grew by 128% y-o-y. Monton e-store is actively used by clients for pre-shopping, acting as a comfortable environment for the customer for making a selection from the collection, before going to the Monton shop for purchase. Website traffic increased with the year by about 90%.

- Increase international competitiveness of all brands in Baltika Group brand portfolio

  Baltika participated in Design Bulldozer project that was carried out in cooperation with Estonian Design Centre, Ministry of Economic Affairs and Communications, Enterprise Estonia - aiming to improve business competence and export potential through design.

  Baltman - Baltika's brand with the longest history, opened new-concept flagship stores in Rocca al Mare shopping centre in Tallinn, Estonia and in Akropolis shopping centre in Vilnius, Lithuania. New concept was developed in co-operation with creative agency Dan Pearlman. The interior design of the new concept store has been nominated for 2013 annual prize of Estonian Interior Decorators Union.

  New store concept for Bastion was finalised in the beginning of 2014 and the opening of the first new concept shop is planned for the end of 2014 in Tallinn, Estonia.

Baltika notified with the issuance of third quarter results that the financial targets set for 2013 (increase total sales over 10% and to at least double net profit compared to 2012) will not be reached. Sales growth in Baltics was strong (8%), but the negative trends in Eastern-Europe, foremost in Russia, played significant role in failing to achieve the planned results for Baltika in 2013.

REVENUE

EUR million	2013	2012	+/-
Retail	54.6	52.7	*3.6%*
Wholesale	3.6	3.0	*20.0%*
Other	0.1	0.6	*-83.3%*
Total	**58.3**	**56.3**	***3.6%***

Revenue 2009-2013

RETAIL

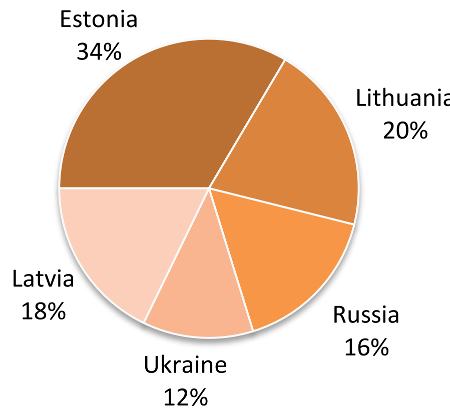
Retail revenue increased 4% i.e. 1.9 million euros in 2013 compared to previous year. Estonia and Latvia showed higher sales growth, 12% and 9% accordingly, while Lithuania showed the highest sales efficiency growth with 4%.

Retail sales by market

EUR million	2013	2012	+/-
Estonia	18.3	16.3	*12%*
Lithuania	11.1	10.9	*2%*
Latvia	9.7	8.9	*9%*
Russia	8.9	9.8	*-9%*
Ukraine	6.5	6.7	*-3%*
Total	**54.6**	**52.7**	***4%***

Competition tightened in the Baltic countries in both premium and regular fashion brand categories. Newcomers opened stores, replacing retailers that were exiting the market, but also on new sales areas as many shopping centres, mostly in Estonia and Latvia, increased their sales areas.

Breakdown of retail sales by market – 2013



Baltika Group's biggest retail market continues to be Estonia. Due to investments into Baltic region the percentage of Baltic countries from total retail sales has continued to increase – 72% in 2013 is three percentage points more than in prior year (2012: 69%). The proportion of Baltic region has steadily increased over the past five years - 13 percentage points (2009: 59%).

Baltika Group's first foreign market, Lithuania, celebrated it's 20 years anniversary in 2013. Market started operating with first Baltman store in Kaunas in 1993 – shop being the first specialized men's clothing brand store in Lithuania. The anniversary of the market was celebrated with memorable fashion event for employees and partners.

Sales efficiency by market

EUR/m^2	**2013**	**2012**	**+/-**
Estonia	234	234	*0%*
Lithuania	169	163	*4%*
Latvia	228	229	*0%*
Russia	182	208	*-12%*
Ukraine	168	173	-3%
Total	**199**	**201**	***-1%***

Sales efficiency trends by market

	Q1	**Q2**	**Q3**	**Q4**	**2013**
Estonia	5%	6%	-6%	-4%	0%
Lithuania	9%	10%	-2%	-2%	4%
Latvia	10%	3%	-9%	-5%	0%
Russia	5%	-7%	-20%	-22%	-12%
Ukraine	7%	0%	-9%	-12%	-3%
Total	**8%**	**4%**	**-8%**	**-7%**	**-1%**

STORES AND SALES AREA

At the end of 2013, Baltika Group had 124 stores in five countries with a total sales area of 23,852 m², 11 stores and 1,642 m² i.e. 7% more than at the end of the previous year. Average operating area increased by 5% with the year. The largest growths in sales area were in Estonian market with 13% and in Latvian market with 10%. Growth in sales area both in Estonia and in Latvia was mainly due to the opening of new stores. Estonia was in addition impacted by Bastion stores that were taken over in the end of 2012 and which had the first full year of operation under Baltika Group in 2013.

Baltika signed in May contract as franchisee with A Levy & Son Ltd, attaining representation rights of Blue Inc London trademarks in Baltics. Regarding the brands collections, Baltika will focus on offering Blue Inc London menswear for the Baltic customers. This addition gives Baltika an opportunity to target new customer, interested in men's quality casual wear at friendly price-range – less represented product group in Baltika's brands' collections. First Blue Inc London store opened in August in Riga, Latvia, followed by store in Valmiera, Latvia in September and store in Tallinn, Estonia in October.

Monton new concept flagship stores were opened in the shopping centres of Baltic capitals: Viru Center in Tallinn, Galerija Centrs in Riga and Akropolis in Vilnius. New concept store was also opened in Russia in OzMall shopping centre in Krasnodar. First to adopt Mosaic new store concept was Latvia, in Spice shopping centre in Riga. Baltika's brand with longest history, Baltman, opened new concept flagship stores in Rocca Al Mare shopping centre in Tallinn, Estonia and Akropol shopping centre in Vilnius, Lithuania.

Latvian market prepared in the second half-year of 2013 for the transition to euro. No issues occurred during transition period with double currency and when switching to euro.

Stores by market

	31 December 2013	31 December 2012	+/-
Estonia	39	36	3
Lithuania	28	27	1
Latvia	21	16	5
Russia	18	18	0
Ukraine	18	16	2
Total stores	**124**	**113**	**11**
Total sales area, sqm	**23,852**	**22,210**	**1,638**

Several Baltika's stores received wider recognition in 2013. On the Estonian market, Monton store received second place in Viru shopping centre competition in both Best Shopping Environment and Best Service. On the Lithuanian market, Baltman store in Vilnius, Panorama was nominated as the store with best service in the shopping centre.

Retail network by market and brand, 31st December 2013

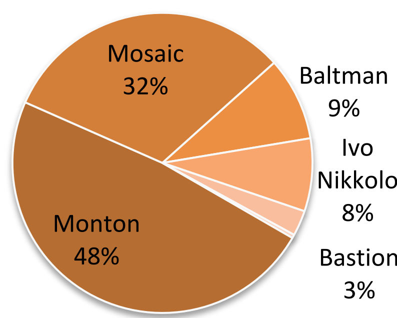
	Estonia	Lithuania	Latvia	Russia	Ukraine	Total	+/- vs 2012
Monton	7	7	4	8	9	**35**	4
Mixed brands	3	4	4	7	2	**20**	-1
Mosaic	10	9	4	3	7	**33**	0
Baltman	5	6	2	0	0	**13**	1
Ivo Nikkolo	5	2	4	0	0	**11**	2
Bastion	6	0	1	0	0	**7**	0
Blue Inc	1	0	2	0	0	**3**	3
Outlet	2	0	0	0	0	**2**	2
Total	**39**	**28**	**21**	**18**	**18**	**124**	**11**
m2	6,965	5,633	3,829	4,014	3,407	**23,852**	1,642

OVERVIEW OF BRANDS

Premium brands portion of Baltika's revenue increased in year 2013. Baltman, Ivo Nikkolo and Bastion constitute 20% of retail revenue (2012: 17%).

In terms of brands, most of Baltika Group retail revenue is continuously contributed by Monton, whose sales for 2013 accounted for 48% of the total retail revenue (2012: 55%). The second largest brand is Mosaic with 32%, Baltman's and Ivo Nikkolo's share is 9% and 8% accordingly. The Bastion brand, which was added to the Group in the end of year 2012, makes up 3% of retail revenue in 2013.

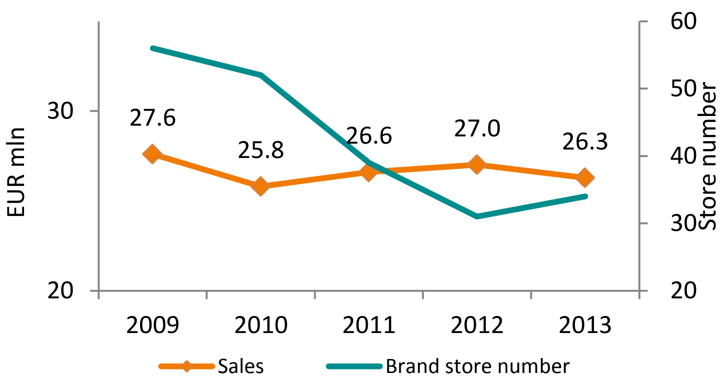
Breakdown of retail sales by brand – 2013



Monton

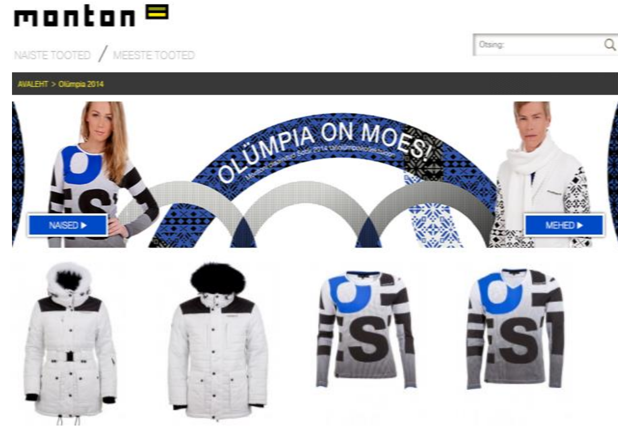
In 2013 retail sales of Monton totalled 26.3 million euros. Compared to 2012, sales decreased by 3%. Sales area increased mostly in Latvia, where in addition to flagship store in Galerija Centrs in Riga a new store was also opened in Galleria Riga.

Montoni retail sales



Monton's largest market continues to be Russia, which accounts for 26% of retail sales of the brand. This is also one of the reasons why Monton brand was most affected from the decrease of sales volumes.

Monton Brand sales increased nicely in the spring-summer period from April to July where climate and collections were aligned. Starting from August, the unseasonably warm weather started to affect sales, decreasing demand for autumn/winter collections, particularly for outerwear.



Gross margin was adversely affected by low sales as well as by additional promotions of outerwear.

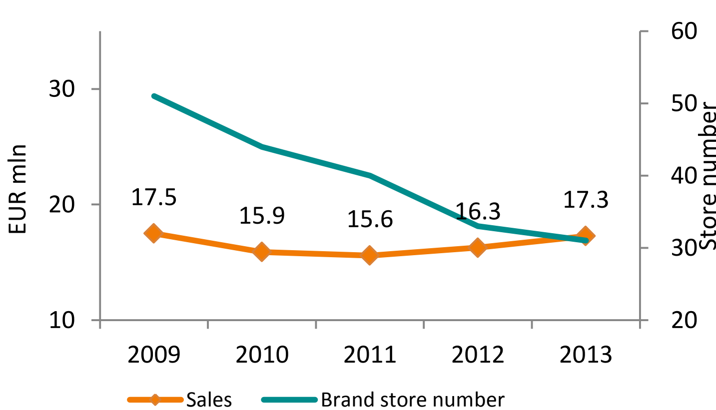
While in Baltic countries the women's wear sales were down by 2% from prior year then men's fashion managed to increase sales by 6%.

Monton sales were supported in the fourth quarter by sales of fans collection made for the 2014 Sochi Winter Olympics.

Mosaic

2013 retail revenue of Mosaic reached 17.3 million euros that signifies 6% improvement over the year. Mosaic had best efficiency figures from Baltika's brands. The largest market for the brand is Estonia, which makes up 35% of total retail sales.

Mosaici retail sales



Based on efficiency figures, Mosaic is strongest on Latvian market, where the sale per square metre significantly exceeds that of all other markets (41% higher sales efficiency than the second best, Estonian market). Latvian market was the one to open Mosaic new concept store in Spice shopping centre in Riga.

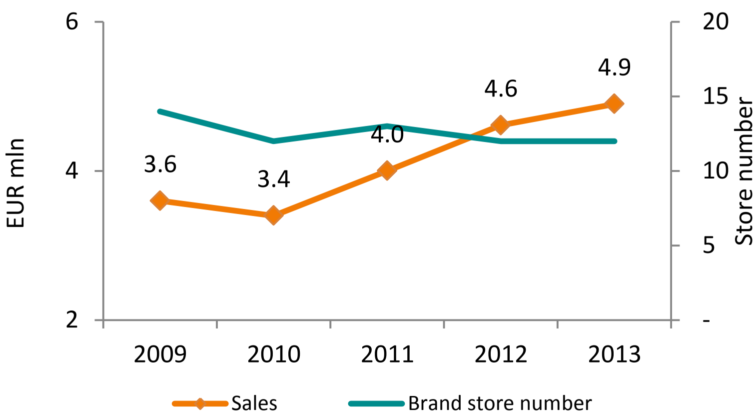
During 2013 Mosaic focused on new sales strategy, which involves offering customers pre-composed product sets. "Perfect set" campaign that focused on offering smart office-wear sets, supported sales also through the weak 3rd quarter in 2013. Mosaic recorded strong sales growth throughout the year, except for August and September. Gross margin was in line with the previous year. Revenue was strongest in the Baltic market, where growth by quarters was 11%, 11%, -3% and 7%.

Baltman

Baltman retail sales totalled 4.9 million euros in 2013, which is an increase of 6% compared to 2012. Baltman remains to hold the title of Baltika's brand with highest sales efficiency.

Largest market for Baltman is Estonia, making up 53% of total retail revenue of the brand. For Baltman, Estonian market is also the most successful in regard of the sales efficiency.

Baltman retail sales



Baltman brand can report increased sales throughout the year 2013, benefitting from continued improvements of the product collections and from wider product offer, acted out in cooperation with third parties and also under the brand collection itself. More diverse offer helps to adapt to changing trends in consumer habits, like for example the decline in demand for classical business suits. Non-suit items sales increased by 19% over the year.

Baltman unveiled an exciting new store concept modelled around the concept of a tailor's studio. New concept stores opened in Vilnius and in Tallinn will give further support to the growth of the rejuvenated Brand.

Batman's head designer, Antonio, received the highest recognition in the Estonian fashion world – the Golden Needle award for his work with Baltman's menswear collections, bringing fresh style and smart sense of fashion to the label. According to author, Antonio's special Baltman Limited Edition collection, which was created for the Golden Needle, represents the essence of his work so far. Baltman team is proud of its head designer and is looking forward to new developments and collections.

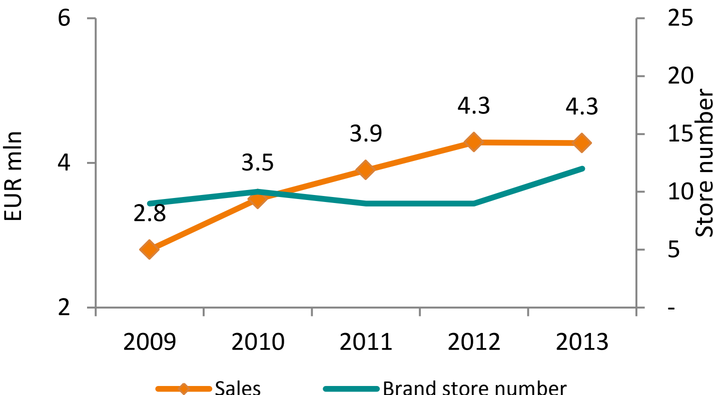
Ivo Nikkolo

Retail sales of Ivo Nikkolo totalled 4.3 million euros in 2013 which is at the same level as in year 2012.

Ivo Nikkolo stores remain to be represented only in Baltic countries, while through multibrand concept stores its products are also available in Eastern-European region.

Largest increase in sales area and sales took place on Latvian market. Two new stores were open in 2012 – in Galleria Riga and Alfa shopping centres.

Ivo Nikkolo retail sales



Sales of Ivo Nikkolo suffered in the first quarter due to some inconsistencies in the product collection that were corrected during second and third quarter. However, the benefit of these improvements was not sufficient to offset the sales lost through supressed demand for outerwear in autumn. Excluding outerwear, on the third quarter Ivo Nikkolo sales were on the same level as in prior year and grew by 4% during fourth quarter. Meanwhile outerwear sales in the same period fell by 8% and 3% respectively.

Gross margin decreased by 3 percentage points over the year mainly due to larger discounts for spring garments during the summer sale period. Margins were back on track in the fourth quarter.

Bastion

Retail sales of Bastion were 1.5 million euros in 2013 – its first full year in Baltika Group.

The main focus during 2013 was to integrate the Bastion team into Baltika and to deliver improvements in collection integrity and availability in stores.

Sales results show that work with marketing and addition of new product categories within the overall offer have paid off in the second half-year.

The objective for 2014 is to open first new store while under Baltika Group. The store will carry the new store concept.

WHOLESALE AND E-COM

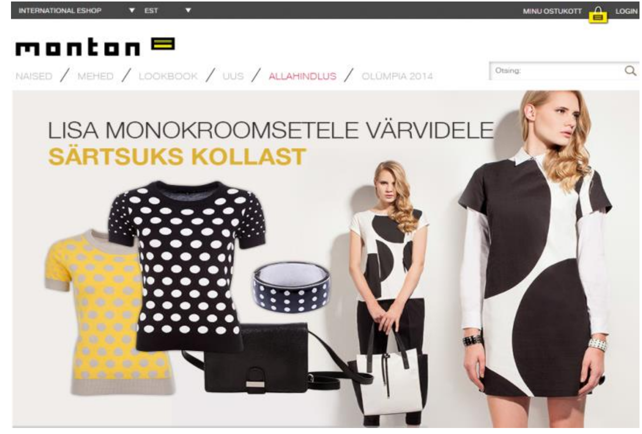
The strategic direction of finding new partners to increase sales through both wholesale and franchise contracts, began with first efforts in 2012. The reporting year of 2013 already shows the first results of this work – wholesale increased by 16% to 3.4 million euros.

In 2013 Baltika signed its first franchise agreement as a franchisor, therefore from the second half-year of 2013 the wholesale report includes sales of Monton collection to Belarusian franchise partner. The first Monton francise stores were opened in October in Minsk. According to plan with franchise partner, in the next five years at least five Monton stores, with a sales area of 150-250 sqm, will be opened in Belarus. Wholesale of Bastion brand was started in second quarter of 2013. Wholesale was also supported by sales to the Estonian Police Board under a public procurement contract. Cooperation was also started with a new retail chain in Russia.

Mosaic portion of wholesale has decreased (due to increase of wholesale volumes of the other brands), but still makes up more than half of total wholesale. The sales of Mosaic collection increased during the year – sale to Finland was launched in the third quarter, through new wholesale partners.

Future developments are mainly focused around Monton, Ivo Nikkolo and Mosaic brands. To increase the traditional wholesale, Baltika is looking to develop the cooperation with existing partners in Finland and Germany, while also seeking out for additional wholesale partners on current and new markets.

Monton e-store increased its sales in 2013 by 128%, compared to 2012.



Monton e-shop dispatched orders to 24 European countries in 2013. Pre-ordering of Monton fans collection for 2014 Sochi Winter Olympics turned out as a success and the products from internationally acclaimed collection by Monton were sold to approximately 20 different countries.

Monton e-store celebrated its second year anniversary in February 2014. A number of improvements are planned in various areas of e-store in 2014 to offer a more flexible shopping experience. By the end of 2014 other brands of Baltika are planned to be made available to customers through the e-channel.

OPERATING EXPENSES AND NET PROFIT

Company's gross margin was 53.5% in 2013, which is one percentage point lower than last year (2012: 54.5%). The slide in the margin is attributable to problems in Russian and Ukrainian markets and weak sales results in the third quarter due to which the stock was realized in the fourth quarter with lower margins than planned. There was also price pressure due to tighter competition and growth of sales area in the Baltic countries. Gross profit for 2013 totalled 31.2 million euros increasing by 0.5 million euros i.e. 2%.

Baltika's average sales area increased by 5% in 2013, leading to increase also in the operating expense. In 2013 distribution expense, amounted to 27.4 million euros, increased by 1.3 million euros i.e. 5%, compared to previous year (2012: 26.2 million euros).

While the most of the administrative expenses decreased in 2013 by 0.1 million euros, the sale of Baltika Quarter property has resulted in the additional expence of the year rent, which increased total administrative expense by 0.3 million euros. Administrative expense totalled to 2.9 million euros, increasing 5%, compared to prior year.

Due to big currency exchange loss in amount of 0.3 million euros in 2013, the other net operating income- and expenses arrived to -0.2 million euros in total (2012: 0.2 million euros net operating income), which resulted in operating profit of 0.7 million euros in 2013.

With the decrease of borrowings in 2012, the interest expense has been lower, which results in net finance expense of 0.4 million euros, that is 0.5 million euros lower than in prior year. This leads to Baltika's profit amounting to 0.3 million euros before taxes.

Baltika Group and most of its companies made profit in the year 2013. Accordingly tax expense in the amount of 0.2 million euros was recognized, which is mainly non-pecuniary as the deferred tax assets from previous losses can be used at first.

Baltika ended the year with 0.1 million euros of net profit.

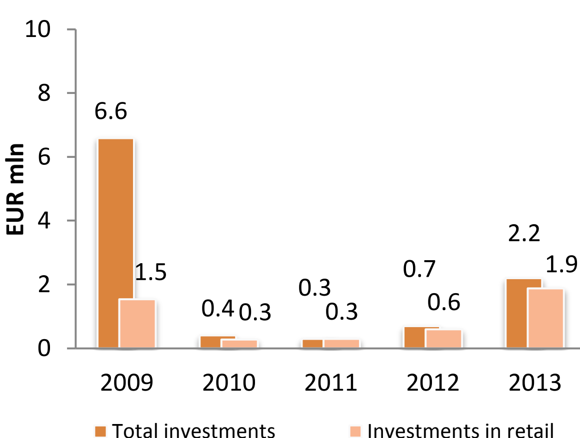
FINANCIAL POSITION

Year 2013 can be described as the year of investment and development, which reflects in changes of the financial position.

As of 31st of December 2013 Baltika Group inventories totalled 13.8 million euros, that is an increase of 2.3 million euros i.e. 20%, compared to the end of 2012. Increase of inventory is mainly due to the increase of finished goods that was on one hand the result of lower than expected sales in August and September, due to which the goods purchased were not fully realised. On other hand, higher stock

level was due to larger number of stores. As at the end of December the sales area has increased 7% y-o-y. In addition to that, the level of inventory has increased due to the bigger proportion of manufactured products over out-sourced, which requires early intake.

Investments into retail network totalled 1.9 million euros in 2013, which is the highest amount of yearly retail investment since 2009. Baltika invested, in different amounts, into more than 30 stores. That includes opening of 17 new stores. Group's property, plant and equipment at cost value increased by 2.1 million euros. Depreciation in 2013 was 1.3 million euros and in total, the fixed assets residual value increased by 0.8 million euros, compared to last year-end.



At the first half of the year Baltika received loan in the amount of one million euros, which was the last part of 3-million loan agreement signed in 2012. During the year Baltika has made loan repayments in amount of 2.3 million euros. In 2013 the overdraft contracts were changed and the limit increased. As by 31st of December 2013 Group's borrowings were 5.3 million euros, which is decrease by 1.0 million euros, compared to last year-end.

Based on a request received from KJK Fund, Sicav-SIF in June the conversion of H-bonds to Baltika shares process was started. 5,000,000 Baltika ordinary shares were transferred on 16th July to the securities account of shareholder in Estonian CSD. As a result of the transaction Baltika borrowings decreased by 1.5 million euros and owners' equity increased in the same amount.

As by 31st of December 2013 Group's net debt (interest-carrying liabilities, minus cash and cash equivalents) was 4.5 million euros, which has increased by 0.3 million euros, compared to the end of year 2012. The Group's net debt to equity ratio was 39% (31 December 2012: 41%).

The end of the reporting year trade and other payables totalled 7.5 million euros, an increase of 0.5 million euros. Biggest impact came from trade payables that have grown due to higher level of inventories and purchase quantity.

As by 31st of December 2013 total equity attributable to equity holders of the parent was 11.5 million euros (31st of December 2012: 10.2 million euros) and net profit for year 2013 was 0.1 million euros, which is 1.0% return on equity.

CASH FLOWS

In 2013 Group achieved positive cash flow from operating activities, amounting to 0.9 million euros. In the same time 2.3 million euros were invested. Balance of cash and cash equivalents decreased by 1.2 million euros over the year, and reached to 0.9 million euros at the end of the year 2013.

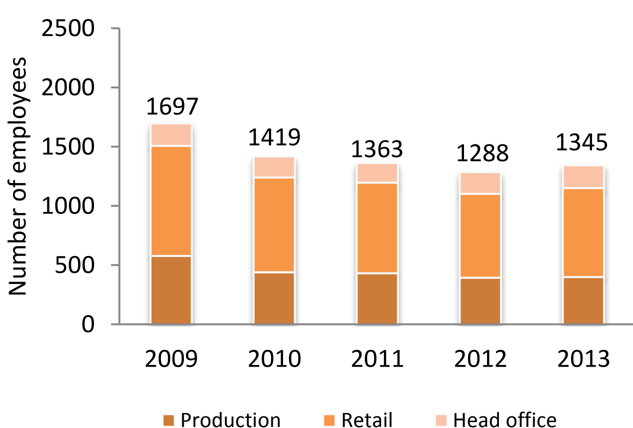
PEOPLE

As by 31st of December 2013, Baltika Group employed a total of 1,345 people that is 57 people more than on 31st of December 2012 (1,288): 752 (2012: 709) in the retail system, 400 (2012: 394) in manufacturing and 193 (2012: 185) at the head office and logistics centre. The 2013 yearly average

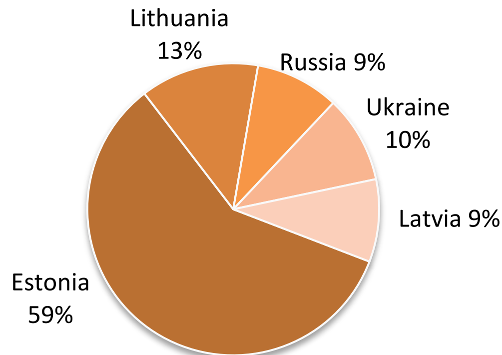
number of staff was 1,319 (2012: 1,288). The proportion of staff employed outside Estonia was 41%, i.e. 555 people (2012: 41%, 526).

Employee remuneration expense in 2013 amounted to 11.4 million euros (2012: 10.6 million euros). The remuneration expense with taxes, including performance based fee, of the members of the Supervisory Council and Management Board, totalled 0.4 million euros (2012: 0.4 million euros).

Number of employees



Breakdown of personnel by country at 31 December 2013



In the end of January Pille Põldsam joined Baltman OÜ Management Board. In Baltika Group, she will be responsible for the Estonian market, for setting and meeting the retail sales targets, organising the work of retail operations and managing the sales and service teams.

Ivo Nikkolo appointed Kaie Kaas in April as the new brand manager. Kaie has long-term experience working in Baltika Group and is leading also Bastion brand.

Management of the ladies wear collections of the Monton and Mosaic brands was assigned in July to Iivika Rõõmberg, who has been involved in different stages of Baltika's product development and production operations already for 13 years.

Tiina Urm started as a new communications manager in July. Her role is to plan and execute communication of the Group and Baltika's brands.

SOCIAL RESPONSIBILITY AND ENVIRONMENT

Baltika Group acknowledges as a company the importance of wider social responsibility and contributes as the largest company in fashion industry in the region consciously to the vitality of the field through different activities. Baltika employs different methods to encourage and support improving various social areas and problems. Baltika also considers the environmental aspects of its

activities. The environmental dimension has been integrated into the Group's management structure and the Group strives to ensure that all its units operate in a way that is environmentally sustainable.

Baltika Lithuanian office is participating in "Green Office" project for two years. This initiative was implemented by business centre where the office is located. The goal of "Green Office" program is to promote "live green, consume less" conception. Companies and workers are encouraged to save on electricity – to consume and pay less. Baltika Lithuania team received a nomination as the office which showed the biggest progress in saving energy in the month of December.

Baltika Group CSR projects

Baltika contributes to the clothing industry and fashion education with an aim to support Estonian fashion industry and the field's sustainability and development by contributing to development of fashion industry professionals curriculum and participating in the activities of educational institutions. The company has strong partnerships with the Estonian Academy of Arts, TTK University of Applied Sciences and Tallinn Industrial Education Centre.

Baltika allows students to attend its in-house training courses, arranges annual information days where it informs students about the processes and daily business of a fashion company and participates in the development of the fashion design curriculum of the Estonian Academy of Arts. Students of Estonian Academy of Arts were given in 2013 the opportunity to participate in the creation of Ivo Nikkolo 20th anniversary collection where the best designs made it to production.

Company brings to Estonia well-known international speakers and holds seminars to students of Estonian Academy of Arts. In 2013 Baltika brought over fashion consultant Toby Meadows from London to give a speech in Estonia (photo on the right).

Baltika also participates every year with one person in the committee assessing fashion industry related bachelor thesis. Baltika also gives yearly support to Estonian Academy of Arts.

Baltika as the largest company in fashion industry in the region is the place for traineeship for many students from various areas of fashion, with the possibility of apprenticeship during and after their studies. Many of the former trainees have become valued employees of Baltika.

Baltika wants to ensure possibilities for development of new designers and is represented every year in the jury of one of the largest stages for young designers - ERKI fashion show.

Baltika brands´ CSR projects

Baltika has been the official sponsor of Estonian Olympic Committee and delegation since year 2004, also designing the parade and casual wear for Estonian athletes of Athens, Torino, Beijing, Vancouver and London Olympics.

Special collection by Monton for 2014 Sochi Winter Olympics combines the Estonian national colours and ethnic patters and stands out for its clean and clear colour solution. It was inspired by wolf as an ancient symbol of powerful animal, helping Estonian delegation of athletes perform for their country and outstand in dignity on the international sports arena. The outfit created for the Estonian athletes' delegation, received attention and recognition both in local media and abroad as one of the most outstanding and stylish outfits from Sochi Olympics.

As a large employer in the region, Baltika is looking for ways to support the weakest part of society – children in poverty. Mosaic collected in 2013 donations for the children of Viljandi SA Perekodu foster home. 10% of Lotte by Mosaic sales revenue was donated to those in

need. The children of SA Perekodu foster home also became the owners of new toys and satchels. Baltika also took care of the outfits of graduates of Viljandi SA Perekodu. On behalf of Baltika's first franchised trademark Blue Inc London the teenagers of Kohtla-Järve orphanage received T-shirts and Baltika also donated under Mosaic brand some much-needed products to the younger children of the same institution.

OUTLOOK AND OBJECTIVES FOR 2014

The overall economic growth in Baltics is forecasted to be slightly higher than in prior year, that mainly from household consumption growth, which is supported by growth of real income. Latvia and Lithuania are forecasted to remain the fastest growing countries in European Union in 2014-2015, with around 5% in Latvia and 3,5-4,5% in Lithuania. Estonian economic growth is forecasted to be 2,5-3% in the coming years. Inflation should remain low in Baltics, around 2% in all Baltic countries.

Economic experts are sceptical regarding Eastern-Europe. Russian economy is forecasted to have long-term stagnation together with inflation. Exporting to Russia is also made harder by money market pressure as rouble is expected to weaken further. The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments.

The Government of Ukraine introduced a number of restrictions in 2013 in relation to foreign exchange aiming to support the national currency, the Ukrainian Hryvnia. Inflation during the year was close to zero as the National Bank of Ukraine reduced the money supply. The political system of Ukraine experienced instability with a number of protests against the Government's actions in late 2013 and street violence in January - February 2014. At the end of January 2014, the President of Ukraine accepted the resignation of Ukraine's Prime Minister and Government. Following this, the Russian Government suspended the support of the Ukrainian Government and Moody's Investors Service downgraded Ukraine's government bond rating to Caa2 from Caa1 with a negative outlook. To stabilise the deteriorating political situation, the Parliament voted a return of the 2004 Constitution and dismissed the President. During January-February 2014, the Ukrainian Hryvnia saw a significant decrease in value against the major world currencies. The new Government called for immediate dialogue with the International Monetary Fund to provide financing and avoid possible default.

Aforementioned and other factors can have significant effect on the Ukrainian economy and the Groups business and financial situation, but Management cannot currently predict their financial effects.

Baltika Group

Based on the aforementioned Baltika expects moderate sales growth in the Baltics. Largest efficiency growth is expected from Lithuania, which retail recovery has lagged behind its neighbouring countries. Baltika expects no sales growth from Eastern-Europe.

Baltic retail is core to the company's economic stability and ground for growth. To maintain the position in the Baltic market amidst tight competition - renovation and opening of new stores is needed.

One of the main targets for 2014 is to carry out the plan to minimise the risks of Ukraine and Russia impacting group total results. One of the possible lines of action is to change the operating model in these markets.

Work is continued to expand franchise network and preparation has been started to launch the sale of all brands, in addition to Monton, through international e-shop, by the end of 2014.

Achieving the targets for 2014 requires investments and sufficient financing of working capital. In accordance with the investment plan disclosed in the second half of year 2012, the retail network requires investments. Also stronger working capital position would allow for better possibilities for decision making and increasing profitability.

While the initial investment plan foresaw that 2013 positive cash-flow provides for the required investments, then the below planned results of 2013 necessitated the need to work out 2014 financing plan, which includes both bank and investors. Notion has been agreed with banks to increase the overdraft limit by up to 2 million euros which will cover most cost efficiently the seasonal need for larger working capital. Supervisory Council has decided to propose shareholders employing 2 million euros for 3 years, through public offering of convertible bonds. Largest shareholder of Baltika KJK Fund, Sicav-SIF will take up the offer in full amount, if needed.

Council decided on 26th of February 2014 to propose to the Annual General Meeting of shareholders to issue convertible bonds with bondholder option in the total amount of 2 million euros. Price for the exchanged shares is 60 days prior to decision average market price – 0.58 euros. The 3 year convertible bonds with 7.5% interest will be issued through public offering.

Taking into account the long-term strategy, the targets for the Management of Baltika Group for year 2014 are:

- Strengthen the position on the Baltic market and increase revenue;
- Decrease direct risks related to Eastern-European segment;
- Prioritise other channels and vigorously grow sales revenue through both current and new wholesale- and franchise agreements;
- Develop E-com – making all Baltika brands available through e-store;
- Strengthen financial position.

Financial target for the company’s Management is to sustainably increase sales and profit.

BALTIKA SHARE

Baltika's share has been listed on the Tallinn Stock Exchange since 5 June 1997. The Tallinn Stock Exchange is a member of the world's largest exchange company NASDAQ OMX Group. NASDAQ OMX Group was established at the beginning of 2008 when NASDAQ Stock Market completed its merger with the Baltic and Nordic exchange company OMX. The new stock exchange company delivers trading, exchange technology and public company services across six continents and, with over 3,900 companies.

Baltika's share does not have an official market maker. The rules enforced in 2005 require newly listed companies to sign a relevant agreement for a certain period. For shares that have been listed for a longer time, it has not been necessary to enter into or extend such agreements.

NASDAQ OMX Baltic Market recognised in January 2014 companies with best investors relations practices, where Baltika received awards in two categories – Best investors relations in the NASDAQ OMX Baltic Market and best Annual Report and Corporate Governance Report. Third place was achieved in both categories.

SHARES

AS Baltika has 40,794,850 ordinary shares.

Ordinary shares

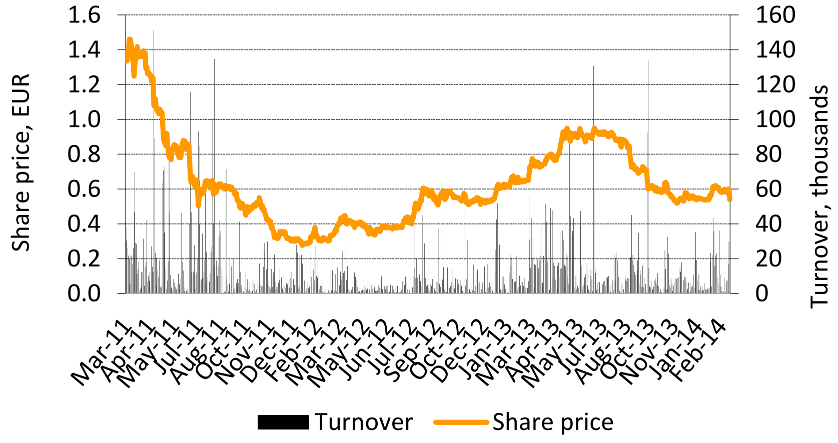
Baltika's ordinary shares are listed on the NASDAQ OMX Tallinn Stock Exchange and carry equal voting and dividend rights. In the text below (the key share data, share price and trading figures, shareholder structure), any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Information on listed ordinary shares

NASDAQ OMX symbol: BLT1T
ISIN number: EE3100003609
Minimum number of shares to trade: 1
Number of shares: 40,794,850
Nominal value of a share: 0.2 euros
Votes per share: 1

SHARE PRICE AND TRADING

In 2013 the price of the Baltika share decreased by 4.5% to 0.547 euros. The number of shares increased over the period and the Group's year-end market capitalisation was 22.3 million euros which signifies and increases of 9%. During the same period, the OMX Tallinn All-Share Index increased by 11.4%.



Share trading history

EUR	2009	2010	2011	2012	2013
High	1.27	1.23	1.52	0.65	0.95
Low	0.44	0.54	0.30	0.28	0.52
Average	0.70	0.82	0.81	0.44	0.74
Year-end price	0.73	1.14	0.30	0.57	0.55
Change, %	-37%	56%	-74%	91%	-5%
Traded volume	10,671,279	9,389,183	6,663,797	4,067,574	4,569,595
Turnover, in millions	7.57	7.84	5.51	1.75	3.38

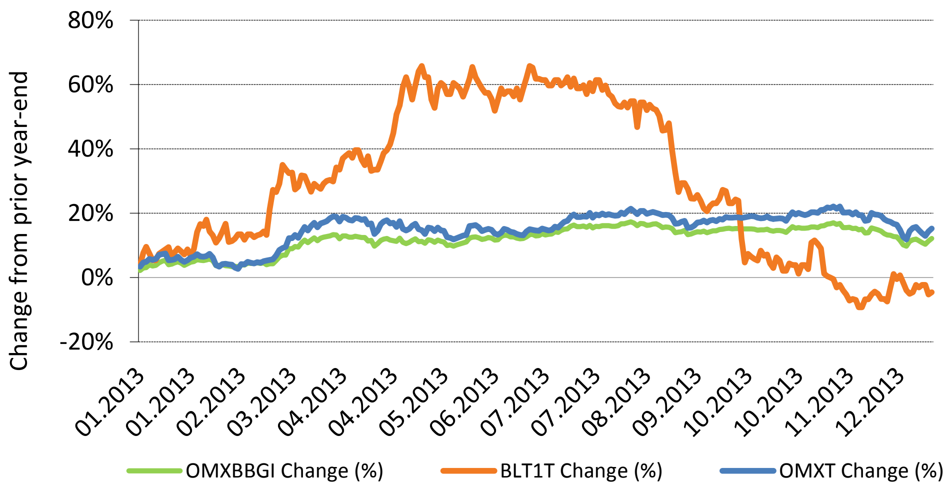
INDICES

The Nordic and Baltic exchanges of NASDAQ OMX Group use the same index structure. The NASDAQ OMX Baltic index family comprises the All Share Index, the Tradable Index, the Benchmark Index, and sector indices. The indices are calculated in euros as price (PI) and/or gross (GI) indices. All indices are chain-linked, meaning that they are calculated based on the price level of the previous trading day. All Baltic equity indices have a base value of 100 and a base date of 31 December 1999. The base date for OMX Tallinn is 3 June 1996.

As of March 2014 Baltika share was part of the following all share indexes:

Index	Description	Type	Short name
OMX Tallinn GI	OMX Tallinn all share index	Gross index	OMXT
OMX Baltic GI	Baltic all share index	Gross index	OMXBGI

Yearly change of Baltika share and gross indexes



SHAREHOLDER STRUCTURE

At the end of 2013, AS Baltika had 1,909 shareholders. The number of shareholders decreased over the year by 5%.

The largest shareholder of AS Baltika is KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account), after the conversion of bonds to shares in 2013, which owned 30.86% of ordinary shares as at the end of 2013. The full list of shareholders is available on the website of the Estonian Central Securities Depository (www.e-register.ee).

Largest shareholders as at 31 December 2013

	Number of shares	Holding
ING Luxembourg S.A. client	12,590,914	30.86%
Clearstream Banking Luxembourg S.A. clients	6,505,350	15.95%
BMIG OÜ	4,750,033	11.64%
Skandinaviska Enskilda Banken Ab clients	3,414,700	8.37%
Svenska Handelsbanken clients	1,645,000	4.03%
AS Genteel	977,837	2.40%
Meelis Milder	743,531	1.82%
Central Securities Depository of Lithuania	708,335	1.74%
Luksusjaht AS	629,721	1.54%
Other	8,829,429	21.64%
Total	**40,794,850**	**100%**

Largest shareholders besides the Management Board include international investment funds and other legal entities who own approximately 83% of the shares. Individuals hold approximately 17% of the shares.

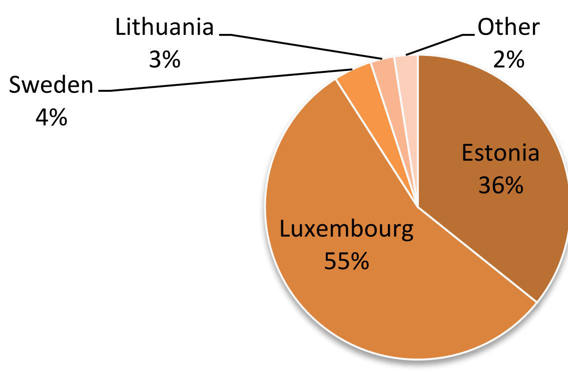
Shareholder structure by shareholder type as at 31 December 2013

	Number of shares	Holding
Management Board members, close family members and entities under their control	5,828,747	14.29%
Legal persons	29,265,450	71.74%
Individuals	5,700,653	13.97%
Total	**40,794,850**	**100%**

Shareholder structure by size of holding as at 31 December 2013

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	3	0.16%	23,846,297	58.45%
1,0 - 10,0%	8	0.42%	8,558,627	20.98%
0,1 - 1,0%	39	2.04%	3,481,636	8.53%
< 0,1%	1,859	97.38%	4,908,290	12.03%
Total	**1,909**	**100%**	**40,794,850**	**100%**

Shareholder structure by country at 31 December 2013



SHARE CAPITAL

Based on a request received from KJK Fund, Sicav-SIF in June 2013 the conversion of H-bonds to Baltika shares process was started. 5,000,000 Baltika ordinary shares were transferred on 16th July to the securities account of shareholder in Estonian CSD. Baltika has now 40,794,850 shares with nominal value of 0.2 euros per share.

According to the Articles of Association, AS Baltika maximum share capital is 20 million euros.

Changes in share capital

Date	Issue type	Issue price EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.12.2008				**18,644,850**	**11,916**	**0**
10.07.2009	Issue of preference shares	0.64	4,000,000	22,644,850	14,473	0
31.12.2009				**22,644,850**	**14,473**	**67**
21.06.2010	Issue of ordinary shares	0.77	8,850,000	31,494,850	20,129	1,131
31.12.2010				**31,494,850**	**20,129**	**1,198**
30.05.2011	Share nominal conversion to euros				1,918	-1,377
31.05.2011	Cancellation of preference shares		-4,000,000	**27,494,850**	-2,556	
31.05.2011	Issue of ordinary shares		4,000,000	**31,494,850**	2,556	
3.08.2011	Issue of ordinary shares	0.7	4,300,000	**35,794,850**	3,010	
31.12.2011				**35,794,850**	**25,057**	**89**
11.05.0212	Decrease of share nominal value				-17,898	-89
31.12.2012				**35,794,850**	**7,159**	**63**
16.07.2013	Conversion of H-bonds to shares	0.3	5,000,000	40,794,850	1,000	496
31.12.2013				**40,794,850**	**8,159**	**684**

DIVIDENDS

According to Group dividend policy no dividends will be paid until Group has a strong financial position and an adequate investment ability. One indicator of strong financial position is when the capital to net gearing ratio is under 40% and availability of sufficient funds (cash and cash equivalents minus overdraft and short term borrowings is over 1% of total number of shares). In addition the actual dividend pay-out ratio will be determined based on the Group's cash flows, development prospects and funding needs.

When the aforementioned financial position is achieved, the Group will determine specific ratio what amount of profit will be paid out as dividends.

The Group ended 2013 with a consolidated net profit of 0.1 million euros. The Management Board of the Group's proposes that this year no dividends be distributed to the holders of ordinary shares. In previous year, the company did not distribute any dividends either.

For dividend history and ratios, please refer to the Key share data table.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Code (CGC) of the Tallinn Stock Exchange is a set of rules and principles which is designed, above all, for listed companies. Since the provisions of CGC are recommendations by nature, the company need not observe all of them. However, where the company does not comply, it has to provide an explanation in its corporate governance report. The "comply or explain" approach has been mandatory for listed companies since 1 January 2006.

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of the Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2013, the supervisory council, the Management Board and explains Baltika's governance structure and processes.

CGC Article 1.3.3.

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer.

Since Baltika does not have the required technical equipment, that would allow secure identification of shareholders, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.1.

The chairman of the supervisory council shall conclude a contract of service with each member of the Management Board for discharge of their functions.

Contract of service is concluded with four members of the Management Board for chairman or member functions as relevant.

CGC Article 2.2.7.

The basic salary, performance pay, severance package, and other benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the issuer and in the corporate governance report. Information shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, Baltika discloses the total amount of remuneration expense with taxes to members of the supervisory council and Management Board in the management report section of its interim and annual reports. In 2013, the figure amounted to 0.4 million euros. The contractual severance benefits of members of the Management Board range from 3- to 18-fold monthly remuneration depending on the period of service.

Members of the Management Board, like other employees, are eligible to performance pay in accordance with the Group's bonus scheme, which is based on the performance of profit centres. The maximum bonus level for the chairman of the Management Board/CEO is 2.5% of the Group's net profit for the financial year and 1% for other members of the Management Board. The maximum amount of prepayments of annual bonuses can be 50% of expected amount, the final one is calculated and made after the financial statements have been audited. The bonus of the chairman of the Management Board/CEO is determined by the Supervisory Council. The bonuses of members of the Management Board are determined by the chairman of the Supervisory Council based on a proposal made by the chairman of the Management Board. The maximum bonus payable to Management Board for 2013 is 0.006 million euros including tax.

Members of the Management Board, similarly to all executives working under a director's contract in the Group, can receive one funded pension contribution of up to one month's salary per year, provided they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the company's internal rules. Members of the Management Board participated together with other employees of the Group in the I-Bond (option) program in 2012.

CGC Article 3.2.5.

The remuneration of a member of the supervisory council (amount and disbursement procedure) shall be disclosed in the issuer's corporate governance report. Basic and additional remuneration (severance and other monetary benefits) shall be disclosed separately.

The annual general meeting of 2009 passed the motion that the emoluments of members of the supervisory council should remain the same as decided by the extraordinary general meeting of 8 December 2004. The remuneration of the chairman of the supervisory council amounts to 639 euros per month and the remuneration of a member of the supervisory council to 383 euros per month. A member of the supervisory council is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

A member of the supervisory council shall promptly inform the chairman of the supervisory council and the Management Board of any business offer related to the business activity of the issuer made to the member of the supervisory council or a person close or connected to the member of the supervisory council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.

In 2013 nor 2012 no conflicts of interests occurred.

CGC Article 5.6.

The issuer shall disclose the dates and places of meetings with analysts, and presentations and press conferences organized for analysts, investors or institutional investors on its website. The issuer shall enable shareholders to attend the above meetings and shall make the texts of the presentations available on its website.

In accordance with the rules of the Tallinn Stock Exchange, Baltika first discloses all material and price sensitive information through the stock exchange system. The information disseminated at meetings and press conferences is limited to previously disclosed data. All information which has been made public, including presentations made at meetings, is available on the Group's website (www.baltikagroup.com), which lists the contacts of persons who can provide further information. Presenting a schedule of meetings on the corporate website is not currently relevant.

As a rule, the issuer cannot enable other shareholders to attend the meetings held with institutional investors and analysts. To ensure the objectivity and unbiased nature of the meetings, institutional investors observe internal rules which do not allow third parties to attend such meetings.

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with the Baltika's Articles of Association, the auditor(s) is (are) appointed by the general meeting for the performance of a single audit or for a specific term. The annual general meeting which convened on 10 May 2013, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2013. According to the audit agreement, Independent Auditor's Report is signed by Ago Vilu. AS Baltika ensures the auditor's independence by rotating the signing partner in accordance with the rules of Financial Supervision Authority.

The audit fee is fixed in an agreement which is concluded by the Management Board. In the notice of the annual general meeting, Baltika publishes the information required by the Commercial Code (Section 294 Subsection 4) that does not include the auditor's fee. Baltika does not disclose the

auditor's fee because the disclosure of such sensitive information would damage the competitive position of the audit firm (CGC Article 6.2.1.).

Under the law, the agreement entered into by an audit firm is governed by International Standards on Auditing, the Estonian Auditing Guidelines and the risk management policies of the audit firm that do not require the auditor to submit a memorandum on the issuer's non-compliance with the Corporate Governance Code. Accordingly, the agreement signed between Baltika and its audit firm does not include a corresponding article and the auditor does not submit such a memorandum (CGC Article 6.2.4.).

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

AS Baltika is a public limited company whose governing bodies are the shareholders' general meeting, the Supervisory Council and the Management Board.

General meeting

The general meeting is the Baltika's highest governing body. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the Baltika's financial year. An extraordinary general meeting is called by the Management Board when the Baltika's net assets based on audited results have declined below the level required by the law and there is over 2 months to annual general meeting of shareholders or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the Baltika's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined at 8 a.m. at the date of the general meeting.

The annual general meeting of 2013 was held on 10 May at 24 Veerenni in Tallinn, Estonia. A total of 19,160,072 shares were represented i.e. 53.53% of the voting stock. In accordance with good practise the shareholders had the possibility to ask questions in addition to Management Board members also from the auditor. The meeting approved the company's annual report and profit allocation proposal for 2012 and appointed the auditor.

Supervisory Council

The Supervisory Council plans the activities of the Baltika, organises the management and supervises the activities of the Management Board. The Supervisory Council meets according to need but not less frequently than once every three months. A meeting of the supervisory council has a quorum when more than half of the members participate. A resolution of the supervisory council is adopted when more than half of the members of the supervisory council who participate in the meeting vote in favour. Each member of the supervisory council has one vote. In 2012, the supervisory council met six times. Most of the Supervisory Council members attended meetings of the Supervisory Council. Lauri Kustaa Aimä was not able to travel to half of the meetings, but is informed of the topics discussed and the activities of the Group through periodic detailed information that is sent. Other Supervisory Council members participated in most of the meetings.

According to the Articles of Association, Baltika's supervisory council has three to seven members. The members are elected by the general meeting for a period of three years.

Annual general meeting of shareholders on 20 April 2012 elected Supervisory Council composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Board meeting on 23 May 2012 elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Board.

Jaakko Sakari Mikael Salmelin is a partner of KJK Capital Oy; he has managed various Eastern European funds focusing mainly on the Baltic and Balkan markets. Tiina Mõis is the director of the investment firm AS Genteel and a member of the councils of several Estonian companies. Reet Saks is an attorney with Law Office Raidla Lejins & Norcous, a long-term partner of Baltika. Reet Saks has been a member of Baltika's supervisory council since 1997. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a member of the councils of several Baltic companies and he has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic

countries. Valdo Kalm is the chairman of AS EMT Management Board and has specialised knowledge in technology and telecommunications industry.

Two council members own Baltika's shares: Tiina Mõis owns 977,837 ordinary shares i.e. 2.4% of share capital through the company under her control and Lauri Kustaa Äimä 24 590 ordinary shares i.e. 0.1% as at the end of 2013.

Supervisory Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika.

Four out of the five members of Baltika's supervisory council were independent. The dependent member is Reet Saks who has been a member of Baltika's supervisory council for more than ten years.

Audit Committee

AS Baltika has an audit committee, with rules of procedure approved by Supervisory Council. The audit committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, and the external audit of the consolidated financial statements. The committee is also responsible for making recommendations in relation to the above issues to prevent or eliminate problems and inefficiency.

The audit committee reports to the Supervisory Council and its members are appointed and removed by the Supervisory Council. The committee has two to five members whose term of office is three years. The members of the audit committee are not remunerated for serving on the committee. Baltika's audit committee is chaired by Reet Saks. Members of the committee are Tiina Mõis and Jaakko Sakari Mikael Salmelin.

In 2013 the audit committee gathered one time. The committee met in December with the representatives of the audit firm PricewaterhouseCoopers to obtain overview of the observations made during 2013 audit interim work.

Management Board

The Management Board is a governing body which represents and manages Baltika in its daily activity in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. The members of the Management Board elect a chairman from among themselves who organises the activities of the Management Board. Every member of the Management Board may represent the company in all legal acts.

According to the Articles of Association, Baltika's Management Board may have three to seven members who are elected by the Supervisory Council for a period of three years. The supervisory council may also remove a member of the Management Board.

Baltika's management board has five members: Chairman Meelis Milder and members Andrew Paterson, Kati Kusmin, Maigi Pärnik-Pernik and Maire Milder.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik the CFO, Maire Milder the Branding and Retail Developing Director, Kati Kusmin Sales and Marketing Director and Andrew Patterson Product division Director.

Management board members Meelis and Maire Milder own Baltika's shares also through the holding company OÜ BMIG, which at the end of 2013 held 11.64% of Baltika's share capital. Latter hold 80.5% of OÜ BMIG shares. In addition, Management Board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2013 Management Board members, their close family members and entities under their control owned 14.29% of Baltika share capital.

Management Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika.

Shareholdings of members of the Management Board at 31 December 2013

	Ordinary shares (listed)	
	No of shares	**No of shares**
OÜ BMIG	4,750,033	11.64%
Meelis Milder	743,531	1.82%
Maire Milder	316,083	0.77%
Andrew Paterson	11,000	0.03%
Close family members of Management Board members	8,100	0.02%
Total OÜ BMIG and Management Board members	**5,828,747**	**14.29%**
Baltika share capital	**40,794,850**	**100%**

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2013 consolidated financial statements as presented on pages 30 to 75.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;

2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;

3. the Group is going concern.

Meelis Milder
Chairman of the Management Board
26 March 2014

Maigi Pärnik-Pernik
Member of the Management Board
26 March 2014

Andrew J. D. Paterson
Member of the Management Board
26 March 2014

Maire Milder
Member of the Management Board
26 March 2014

Kati Kusmin
Member of the Management Board
26 March 2014

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Current assets			
Cash and cash equivalents	4	852	2,078
Trade and other receivables	5	1,514	1,836
Inventories	6	13,751	11,471
Total current assets		**16,117**	**15,385**
Non-current assets			
Deferred income tax asset	7	494	637
Other non-current assets	8	1,013	1,088
Property, plant and equipment	10	3,023	2,256
Intangible assets	11	3,693	4,150
Total non-current assets		**8,223**	**8,131**
TOTAL ASSETS		**24,340**	**23,516**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13	3,158	1,598
Trade and other payables	14	7,503	7,005
Total current liabilities		**10,661**	**8,603**
Non-current liabilities			
Borrowings	13	2,171	4,702
Other liabilities	14	0	25
Total non-current liabilities		**2,171**	**4,727**
TOTAL LIABILITIES		**12,832**	**13,330**
EQUITY			
Share capital at par value	15	8,159	7,159
Share premium		684	63
Reserves	15	1,182	1,182
Retained earnings		2,471	1,667
Profit for the period		102	804
Currency translation differences		-1,090	-689
TOTAL EQUITY		**11,508**	**10,186**
TOTAL LIABILITIES AND EQUITY		**24,340**	**23,516**

The Notes to the financial statements presented on pages 36-75 are an integral part of the Financial Statements.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	2013	2012
Revenue	16,17	58,353	56,332
Cost of goods sold	18	-27,138	-25,615
Gross profit		**31,215**	**30,717**
Distribution costs	19	-27,446	-26,193
Administrative and general expenses	20	-2,869	-2,722
Other operating income	22	155	341
Other operating expenses	22	-404	-184
Operating profit		**651**	**1,959**
Finance income	23	6	61
Finance costs	23	-388	-964
Profit before income tax		**269**	**1,056**
Income tax expense	24	-167	-251
Net profit		**102**	**805**
Profit attributable to:			
Equity holders of the parent company		102	804
Non-controlling interest		0	1
Basic earnings per share, EUR	25	0.00	0.02
Diluted earnings per share, EUR	25	0.00	0.02

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CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2013	2012
Net profit	**102**	**805**
Other comprehensive income		
Items that subsequently might be classified to profit or loss:		
Currency translation differences	-401	38
Total comprehensive income (loss)	**-299**	**843**
Comprehensive income (loss) attributable to:		
Equity holders of the parent company	-299	842
Non-controlling interest	0	1

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CONSOLIDATED CASH FLOW STATEMENT

	Note	2013	2012
Operating activities			
Operating profit		651	1,959
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	10,11	1,574	1,715
Profit/loss from disposal of PPE and intangibles		31	34
Other non-monetary expenses		50	94
Changes in working capital:			
Change in trade and other receivables	5	317	445
Change in inventories	6	-2,444	-1,096
Change in trade and other payables	14	992	-899
Interest paid		-307	-826
Interest received		6	0
Income tax paid		-18	-89
Net cash generated from operating activities		**852**	**1,337**
Investing activities			
Acquisition of property, plant and equipment, intangibles	10,11	-2,361	-715
Proceeds from disposal of property, plant and equipment	10	80	73
Acquisition of non-controlling interest	28	0	-91
Net cash used in investing activities		**-2,281**	**-733**
Financing activities			
Received borrowings	13	1,000	2,000
Repayments of borrowings	13	-2,280	-1,091
Change in bank overdraft	13	1,566	-382
Repayments of finance lease	12	-39	-131
Proceeds from bond issue	26	0	212
Redemption of share options		-4	0
Net cash generated from financing activities		**243**	**608**
Total cash flows		**-1,186**	**1,212**
Cash and cash equivalents at the beginning of the period	4	**2,078**	**863**
Effect of exchange gains (losses) on cash and cash equivalents		-40	3
Cash and cash equivalents at the end of the period	4	**852**	**2,078**
Change in cash and cash equivalents		**-1,226**	**1,215**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent							
	Share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total	Non-controlling interest	Total equity
Balance as at 31 December 2011	**25,056**	**89**	**2,494**	**-17,455**	**-727**	**9,457**	**165**	**9,622**
Profit for the period	0	0	0	804	0	804	1	805
Other comprehensive income	0	0	0	0	38	38	0	38
Total comprehensive income	**0**	**0**	**0**	**804**	**38**	**842**	**1**	**843**
Offsetting losses (Note 15)	0	-89	-651	740	0	0	0	0
Decrease of the nominal value of share (Note 15)	-17,897	0	1,182	16,715	0	0	0	0
Equity-settled share-based transactions (Note 15)	0	63	0	0	0	63	0	63
Equity instrument classification to liability (Note 15)	0	0	-250	0	0	-250	0	-250
Acquisition of non-controlling interest (Note 28)	0	0	0	75	0	75	-166	-91
Sale of investment property: revaluation reserve (Note15)	0	0	-1,592	1,592	0	0	0	0
Balance as at 31 December 2012	**7,159**	**63**	**1,182**	**2,471**	**-689**	**10,186**	**0**	**10,186**
Profit for the period	0	0	0	102	0	102	0	102
Other comprehensive loss	0	0	0	0	-401	-401	0	-401
Total comprehensive loss	**0**	**0**	**0**	**102**	**-401**	**-299**	**0**	**-299**
Equity-settled share-based transactions (Note 15)	0	125	0	0	0	125	0	125
Conversion of bonds to share capital (Note 15)	1,000	496	0	0	0	1,496	0	1,496
Balance as at 31 December 2013	**8,159**	**684**	**1,182**	**2,573**	**-1,090**	**11,508**	**0**	**11,508**

Additional information on share capital and changes in equity is provided in Note 15.

The Notes to the financial statements presented on pages 36-75 are an integral part of the Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo and under franchise agreement Blue Inc retail concepts. The Baltika Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and retailing. As of the end of 2013, there were 124 Baltika stores on five markets in the Baltics and Eastern Europe (2012: 113 stores). Baltika also sells its collections through wholesale. As at 31 December 2013 Baltika Group employed 1,345 people (31 December 2012: 1,288).

AS Baltika's shares are listed on the Tallinn Stock Exchange. The largest shareholder and the only company holding above 20% of shares (Note 15) of AS Baltika is KJK Fund Sicaf-SIF (on ING Luxembourg S.A. account).

AS Baltika (the Parent company) (registration number: 10144415, address: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2013 was operating in Estonia, Latvia, Lithuania, Russia, Ukraine and as a franchisor in Belarus. The consolidated financial statements prepared for the financial year ended at 31 December 2013 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group):OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, OÜ Baltika TP and OÜ Baltika Retail and its subsidiaries OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva, OOO Kompania "Olivia" and Baltika Retail Ukraina Ltd.

The Management Board of AS Baltika authorised these consolidated financial statements at 26 March 2014. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Council of the Parent company and the general meeting of shareholders.

Basis of preparation

The Group's 2013 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost convention, except investment property, which has been revalued and accounted for at fair value as disclosed in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee

Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations that are relevant and became effective for the Group from 1 January 2013:

Presentation of Items of Other Comprehensive Income, amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2013). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets (effective for annual periods beginning on or after 1 January 2014). The Group has early adapted the standard in current accounting period. The amendments remove the requirement to disclose the recoverable

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amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

IFRS 13, Fair value Measurement (effective for annual periods beginning on or after 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRS. The Standard resulted in additional disclosures in these consolidated financial statements.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group´s annual periods beginning on or after 1 January 2014, and which the Group has not early adopted.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014). Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 January 2014).

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The Group is currently assessing the impact of the amendments on its financial statements.

Principles of consolidation, accounting for business combinations and subsidiaries

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than 50% of the shares with voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated in the Group's financial statements.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date on which control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

Non-controlling interest

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Transactions with non-controlling interest

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the local currency. The functional currency of the Parent company and subsidiaries located in Estonia is euro[i]. The consolidated financial statements have been prepared in euros, which is the Parent company's functional and the Group's presentation currency.

Financial statements of foreign operations

The results and financial position of the foreign subsidiaries of the Group are translated into presentation currency as follows:

- assets and liabilities are translated into euros at the closing rate at the date of the balance sheet;
- income and expenses for statement of profit and loss are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate of the balance sheet date.

When a subsidiary is partially or wholly disposed through sale, liquidation, repayment of share capital or abandonment, the exchange differences deferred in equity are reclassified to profit or loss.

Foreign currency transactions and balances

During the year, all foreign currency transactions of the Group have been translated to functional currencies based on the foreign currency exchange rates of the applicable Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the applicable Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses, including arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognised in the statement of profit and loss as income or expenses of that period.

[i] On January 2014 the Republic of Latvia joined the Euro area and adopted the Euro as its national currency, replacing Latvian lat.

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Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under “Other operating income (expenses)” (Note 22). Gains and losses arising from cash, cash equivalents and borrowings are recognised under net method in financial expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand as well as bank account balances, and term deposits with original maturities of three months or less. Bank overdrafts are shown under current or non-current borrowings (depending on the nature and term of the contract) in the statement of financial position. Cash and cash equivalents are measured at amortised cost.

Financial assets

The purchases and sales of financial assets are recognised at the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Depending on the purpose for which financial assets were acquired as well as management’s intentions, financial assets are classified into the following categories at initial recognition:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

As at 31 December 2013 (and 31 December 2012) the Group had no other classes of financial assets than those classified under the category of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method. This method is used for calculating interest income on the receivable in the following periods.

When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the statement of profit and loss within “Other operating expenses”. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other receivables are assessed based on their collectible amounts. The collection of each receivable is assessed separately, taking into consideration all known information on the solvency of the debtor. Doubtful receivables are written down in the balance sheet to the collectible amount. Irrecoverable receivables are derecognised.

Receivables are generally included in current assets when they are due within 12 months after the balance sheet date. Such receivables whose due date is later than 12 months after the balance sheet date are reported as non-current assets.

Inventories

Inventories are recorded on the balance sheet at cost, consisting of the purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their present location and condition.

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Purchase costs include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour) and also a systematic allocation of fixed and variable production overheads (such as depreciation and maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management).

The FIFO method is used to account for the cost of inventories. Inventories are measured in the balance sheet at the lower of acquisition/production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Investment property

Real estate properties (land, buildings) that the entity owns or leases under finance lease terms to earn lease income or for capital appreciation, or both, and which are not occupied by the Group are recorded under investment property. An investment property is initially recognised at its acquisition cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. It is subsequently re-measured at its fair value which is based on the market value determined annually by external valuers or the management's judgement. Earned lease income is recorded in profit or loss within revenue. Gains and losses resulting from changes in the fair value of investment property are recognised under "Other operating income (expenses)".

If non-current assets used in operating activities are reclassified as investment property, the difference between the carrying amount of reclassified asset and the fair value is recognised as revaluation surplus in other comprehensive income. Investment property is not reclassified as non-current assets used in operating activities if the usage in operating activities is of temporary substance and the effect of the change in m^2 remains less than 10% of the total area of the object. Gains and losses resulting from changes in the fair value of investment property are recognised in statement of profit and loss, under "Other operating income (expenses)". The revaluation surplus included in equity is transferred to retained earnings on the subsequent disposal of investment property.

Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

An item of property, plant and equipment is subsequently stated at cost less any accumulated depreciation and any impairment losses. Subsequent expenditure incurred for an item of property, plant and equipment is recognised as a non-current asset when it is probable that the Group will derive future economic benefits from it and its cost can be measured reliably. The cost of reconstruction carried out on leased premises is depreciated over the shorter of the useful life of the asset and the lease term. Other maintenance and repair costs are expensed when incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- buildings and structures
  - -rental space-related assets 5-7 years;
  - -buildings 60 years;
- machinery and equipment 2-7 years;
- other fixtures 2-10 years.

At each balance sheet date, the appropriateness of depreciation rates, methods and the residual value is assessed. When the residual value of the asset exceeds its carrying amount, the depreciation of the asset is ceased.

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At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss in "Other operating income (expenses)".

Intangible assets (excluding goodwill)

An intangible asset is initially recognised at its acquisition cost, comprising its purchase price, any directly attributable expenditure on preparing the asset for its intended use and borrowing costs that relate to assets that take a substantial period of time to get ready for use. After initial recognition, an intangible asset is carried at its acquisition cost less any accumulated amortisation and impairment losses.

Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (5-50 years).

Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3-10 years).

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of non-controlling interest in the acquiree. Goodwill which arose in the acquisition of a business is recognised as an intangible asset in the consolidated financial statements. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is immediately recognised under "Other operating income".

At the transaction date, goodwill is recognised in the statement of financial position at its acquisition cost. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill is not amortised. Goodwill is allocated to CGUs (cash generating units) for the purpose of impairment testing.

At each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value (if it is lower than its carrying amount).

Goodwill which arose in the acquisition of foreign businesses is translated using the foreign exchange rate of the applicable Central bank prevailing on the balance sheet date.

Impairment of non-current assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but are tested annually for impairment, by comparing their carrying amount with the recoverable amount.

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Assets that are subject to amortisation and depreciation and assets with infinite useful life (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

Assets which were written down are reviewed on each balance sheet date to determine whether their recoverable value has arisen. The reversal of the impairment loss is recorded in the statement of profit and loss of the financial year as a reduction of the impairment losses. Impairment loss recognised for goodwill is not reversed.

Finance and operating leases

Leases, in the case, of which the lessor retains substantially all the risks and rewards of ownership, are classified as operating leases. Other leases are classified as finance leases.

The Group is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the statement of profit and loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets leased under finance leases are depreciated similarly to acquired non-current assets whereas the depreciation period is the lower of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

Payments made under operating leases are charged to the statement of profit and loss on a straight-line basis over the lease term.

The future minimum lease payments under non-cancellable operating leases are calculated based on the non-cancellable periods of the leases taking into account the following criteria:

- should the termination of the agreement require a mutual agreement, lease payments for the three-month period are taken into consideration;
- should the termination of the agreement require an advance notice, lease payments due within the advance notice period are taken into consideration.

The Group is the lessor

Assets leased out under operating leases are recognised similarly to non-current assets. Operating lease payments are recognised as income on a straight-line basis over the lease term.

Sale and leaseback transaction

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately.

Payables to employees

Payables to employees contain the contractual right arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is to be paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability at the balance sheet date. In addition to the holiday pay, this liability also includes accrued social and unemployment taxes.

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Provisions and contingent liabilities

Provisions for liabilities and charges resulting from environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (i) the best estimate of the expenditure required to settle any financial obligation arising on the balance sheet date and (ii) the amount initially recognised less, when appropriate, cumulative amortisation. Consequently, any financial guarantees issued on behalf of parties outside of the Group will result in recognition of a liability, unless the likelihood of occurrence is zero.

Financial liabilities

All financial liabilities (trade payables, borrowings, bonds and other current and non-current borrowings) are initially recorded at the proceeds received, net of transaction costs incurred on trade date. The amortised cost of current liabilities normally equals their nominal value; therefore current liabilities are stated in the statement of financial position in their redemption value. Non-current liabilities are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is classified as current when it is due within 12 months after the balance sheet date or the Group does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Offsetting

Financial assets and financial liabilities are offset only when there exists a legally enforceable right and these amounts are intended to be settled simultaneously or on a net basis.

Share capital

Ordinary shares are classified in equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity item “Share premium” or in case of absence of share premium as a reduction of the equity item “Retained earnings”. Preference shares are classified in equity in case they meet the definition of equity instrument or if they form a compound financial instrument which includes a component that meets the definition of equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity by the equity instrument and as a reduction of the liability and equity in proportion by the compound financial instrument.

Compound financial instruments

Compound financial instruments issued by the Group can comprise of (i) convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value and (ii) preference shares which entitle the holder a guaranteed interest and subsequent conversion of the instrument into ordinary shares. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the

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liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Other reserves

Reserves are set up in accordance with the resolution of the general meeting of shareholders and they can be used to offset losses from prior periods as well as to increase share capital. Payments shall not be made to shareholders from reserves.

Borrowings for which there is no contractual obligation to deliver cash or another financial asset, but which will be settled by issuing equity instruments, are recorded within equity. Until issuance of shares, the amount is presented in other reserves.

Statutory reserve

In accordance with the Commercial Code, statutory reserve has been set up from annual net profit allocations. During each financial year, at least one-twentieth of the net profit should be transferred to reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Revaluation surplus

The reserve has arisen upon reclassification of property, plant and equipment to investment property carried at fair value. For additional information regarding accounting policies for investment property see section “Investment property” in the current note.

Share-based payments

The fair value of services (work contribution) supplied by the employees to the Group in exchange for the shares is recognised as an expense in the statement of profit and loss and in share premium in equity during the vesting period (from the grant date of convertible bonds until the vesting date). The fair value of the services received is determined by reference to the fair value (market value) of equity instruments granted to the employees at the grant date. For the employee to receive the right to be able to convert the convertible bond into shares under the share-based payment agreement, there must be an existing employment relationship and therefore at each balance sheet date, the number of estimated convertible bonds expected to be vested is assessed and personnel expenses as well as share premium items are adjusted to reflect the change in the number of bonds expected to be converted. The amounts received for shares upon the conversion of a convertible bond less direct transaction costs is recognised in the items “Share capital” and “Share premium” in equity.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable, taking into consideration all discounts and concessions made. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer and the amount of revenue and costs incurred in respect of the transaction can be measured reliably.

Retail sales

Revenue from the sale of goods is recognised at the time of selling the goods to the customer at the retail store, generally for cash or by card payment. The sales price also includes fees for card transactions recognised as distribution costs. Past experience is used to estimate and provide for sales returns at the time of sale.

Wholesale

Revenue from the sale of goods is recognised when the risks and returns have been passed to the customer according to delivery terms. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

Other

Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method. Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of

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revenue can be measured reliably. For further information see section “Interest income and expenses”. Dividend income is recognised when the right to receive payment is established.

Revenue from the sale of goods and services is included in the statement of profit and loss on line “Revenue” and revenue from the sale of investments in the line “Finance income”.

Interest income and expenses

Interest income/expenses have been recognised in the statement of profit and loss for all financial instruments that are measured at amortised cost using the effective interest rate method. The effective interest rate is a method for calculating the amortised cost of a financial asset or a financial liability or the method for allocating interest income/expenses to the respective period. The effective interest rate is the rate that discounts the expected future cash receipts/payments over the expected useful life of the financial asset or the financial liability to its carrying amount. In calculating the effective interest rate, the Group assesses all contractual terms of the financial instrument but does not consider future credit losses. All contractual major service fees paid or received between the parties that are an integral part of the effective interest rate, transaction costs and other additional taxes or deductions are used in the calculation. If a financial asset or a group of similar financial assets has been written down due to impairment, interest income is calculated on them using the same interest rate as was used for discounting the future estimated cash receipts in order to determine the impairment loss.

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of income can be measured reliably. When the receipt of interest is uncertain, interest income is recognised on a cash basis. Interest income is recognised in the line “Finance income”.

Segment reporting

Business segments are components of The Group that engage in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Management Board of the Parent company AS Baltika.

Segment results include revenues and expenses directly attributable to the segment and the relevant part that can be allocated to the particular segment either from external or internal transactions. Segment assets and liabilities include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is from subject to income tax of 21/79 of the amount paid out as dividends from which income tax paid before 1 January 2000 can be deducted using a respective coefficient. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are paid.

Corporate income tax in other countries

In accordance with the local income tax laws, the net profit of companies located in Latvia, Lithuania, Ukraine and Russia that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

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Corporate income tax rates

	2014	2013
Latvia	15%	15%
Lithuania	15%	15%
Ukraine	18%	19%
Russia	20%	20%

Deferred income tax is provided using the liability method. Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. The main temporary differences arise from depreciation and tax loss carry-forwards. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares outstanding. Diluted earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares taking also into consideration the number of dilutive potential shares.

NOTE 2 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include: valuation of inventory (Note 6), valuation of deferred income tax assets (Note 7) and valuation of goodwill (Note 11).

Inventory valuation (Note 6)

Upon valuation of inventories, the Management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 10,964 thousand euros as at 31 December 2013 and 8,870 thousand euros as at 31 December 2012), upon valuation of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 2,192 thousand euros as at 31 December 2013 and 2,281 thousand euros as at 31 December 2012); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 72 thousand euros as at 31 December 2013 and 69 thousand euros as at 31 December 2012).

Deferred income tax (Note 7)

Deferred income tax asset has mostly arisen through tax loss carry-forwards from subsidiaries operating in foreign markets and is recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future the management makes judgements and applies estimation based on the future development of the market and its outcomes to evaluate future expected revenue. The profit assumption is based on the attainment of the Group's strategic goals. The carrying amount of net deferred income tax asset

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recognised in the balance sheet amounts to 494 thousand euros as at 31 December 2013 and 637 thousand euros as at 31 December 2012.

Valuation of goodwill (Note 11)

The Management has performed an impairment test for goodwill that arose on the acquisition of the Russian group entities, subsidiary SIA Baltika Latvija and the subsidiary OÜ Baltika Tailor. Future expected cash flows based on the budgeted sales and production volumes respectively have been taken into consideration in determining the recoverable amount of the investments. The future expected cash flows have been discounted using the expected rate of return in the particular market within the similar industry. If the recoverable amount of cash generating unit is lower than its carrying amount, an impairment loss is recognised. Valuation of goodwill refer to Note 11.

NOTE 3 Financial risks

In its daily activities, the Group is exposed to different types of risks. Risk management is an important and integral part of the business activities of the Group. The Group's ability to identify, measure and control different risks is a key variable for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks. Management of the Group's Parent company considers all the risks as significant risks for the Group.

The basis for risk management for the Group are the requirements set by the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, adherence to generally accepted accounting principles, as well as the company's internal regulations and risk policies. Overall risk management includes identification, measurement and control of risks. The management of the Parent company plays a major role in managing risks and approving risk procedures. The Supervisory Council of the Group's Parent company monitors the management's risk management activities.

Market risk

Foreign exchange risk

Sales in foreign currencies not pegged to euro constitute 44% of the revenues of the Group (2012: 45%) and are denominated in LVL (Latvian lat), RUB (Russian rouble), UAH (Ukrainian hryvnia) for the foreign subsidiaries of the Group. The majority of raw materials used in production are acquired from European Union, goods purchased for resale outside European Union. The major currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled mainly in euros. As the Group's main revenues arise from retail sales, the prices of goods in the markets are fixed in a local currency and consequently, changes in foreign currency exchange rates directly affect the Group's revenue through the pricing of goods at the stores in those markets. In addition, a change in the economic environment and relative appreciation/depreciation of a local currency may greatly affect the purchasing power of customers in the market of the respective segment.

The Group´s results are open to fluctuations in foreign currency rates against euro. The changes in average foreign currency rates against euro in the reporting period were the following:

Average rates	2013	2012
RUB (Russian rouble)	-6.04%	2.34%
UAH (Ukrainian hryvnia)	-3.63%	7.60%
LVL (Latvian lat)	-0.60%	1.27%
USD (US dollar)	-3.37%	7.70%

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The changes in foreign currency rates against euro between balance-sheet dates were following:

Balance-sheet date rates	
RUB (Russian rouble)	-12.39%
UAH (Ukrainian hryvnia)	-4.79%
LVL (Latvian lat)	-0.73%
USD (US dollar)	-4.52%

Foreign exchange risk arises from cash and cash equivalents (Note 4), trade receivables (Note 5) and trade payables (Note 14) denominated in currencies other than euro. If the foreign exchange rates in relation to the euro as at 31 December 2013 had been up to 8% higher (lower), the impact on the net profit for the year would have been +/-30 thousand euros (2012: +/-16 thousand euros on the net loss). The assessment of foreign exchange rate sensitivity to the 2013 result is based on the assumptions that the reasonably possible fluctuations in foreign currency exchange rates of the main trading currencies of the Group are the following: Russian rouble does not exceed +/-9%, Ukrainian hryvnia does not exceed +/-8%, US dollar does not exceed +/-6%, British pound does not exceed +/-5%. Lithuanian lit is pegged to the euro and Latvian lat was substituted by euro in 2014, there is no foreign exchange risk arising from cash and cash equivalents, trade receivables and trade payables denominated in those currencies

The assessment of foreign exchange rate sensitivity to the 2012 profit were based on the assumptions that the fluctuations in foreign currency exchange rates of Russian rouble and Ukrainian hryvnia did not exceed +/-8%, US dollar did not exceed +/-6% and that the exchange rates of the Latvian lat and other currencies did not exceed not more than 1%.

Impact of the potential change in the currency exchange rates on the net profit/loss arising from the translation of monetary assets and liabilities

	Impact 2013	**Impact 2012**
Cash and cash equivalents	39	54
Trade and other receivables	9	9
Trade and other payables	-78	-79
Total	**-30**	**-16**

The Group's non-current borrowings were denominated in euros, therefore no currency risk arises.

No instruments were used to hedge foreign currency risks in 2013 and 2012. The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group, except in the case if the currencies were devaluated in the countries where AS Baltika has subsidiaries. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency. Additionally the Group uses the possibilities to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

Interest rate risk

As the Group's cash and cash equivalents carry fixed interest rate and the Group has no other significant interest-carrying assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from current and non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. There is no fair value interest rate risk as the Group has no interest carrying financial instruments, which are recognised at fair value. Interest rate risk is primarily caused by the potential fluctuations of Euribor and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

All non-current borrowings as at 31 December 2013 and 31 December 2012 were subject to a floating interest rate based on Euribor, which is fixed every month or six months, or had a fixed interest rate (Note 13). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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If for the reporting period, floating interest rates on borrowings had been one percentage point higher with all other variables held constant, the post-tax profit for the year would have been 58 thousand euros (2012: 124 thousand euros post-tax profit lower) lower and if 0.1 percentage point lower, the post-tax profit for the year would have been 6 thousand euros higher (2012: 1 thousand euros post-tax profit higher).

The Group uses no hedging instruments to manage the risks arising from fluctuations in interest rates.

Price risk

The Group is not exposed to the price risk with respect to financial instruments as it does not hold any equity securities.

Credit risk

Credit risk arises from cash and cash equivalents, deposits (recognised as other receivables) with banks and financial institutions as well as outstanding receivables.

Cash and cash equivalents

For banks and financial institutions, mostly independently rated parties with a minimum rating of "A" are accepted as long-term counterparties in Baltic states. Mostly for banks in Eastern Europe, the "B" rating is also considered acceptable.

Cash and cash equivalents at bank classified by credit rating[1]

	31 Dec 2013	31 Dec 2012
A	358	1,279
B	199	384
Total (Note 3)	**557**	**1,663**

[1]The credit rating applies on long-term deposits as published by Moody's Investor Service website.

Receivables

As at 31 December 2013 the maximum exposure to credit risk from trade receivables (Note 5) and other non-current assets (Note 8) amounted to 1,069 thousand euros (31 December 2012: 1,023 thousand euros) on a net basis after the allowances.

Sales to retail customers are settled in cash or using major credit cards, thus no credit risk is involved except the risk arising from financial institutions selected as approved counterparties.

Liquidity risk

Liquidity risk is the potential risk that the Group has limited or insufficient financial (cash) resources to meet the obligations arising from the Group's activities. Management monitors the sufficiency of cash and cash equivalents to settle the liabilities and finance the Group's strategic goals on a regular basis using rolling cash forecasts.

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, and monitors receivables and purchase contracts. A Group current account/overdraft facility is in use for more flexible management of liquid assets, enabling Group companies to use the Group's resources up to the limit established by the Parent company (Note 13). The unused limit of Group´s overdraft facilities as at 31 December 2013 was 1,000 thousand euros (31 December 2012: 1,567 thousand euros).

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Financial liabilities by maturity as at 31 December 2013

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 13)[2]	5,150	332	3,014	2,158	5,504
Finance lease liabilities (Note 13)	155	12	30	135	177
Convertible bonds (Note 13, 15)	24	0	0	24	24
Trade payables (Note 14)	4,966	4,966	0	0	4,966
Other financial liabilities (Note 14)	2	2	0	0	2
Total	**10,297**	**5,312**	**3,044**	**2,317**	**10,673**

Financial liabilities by maturity as at 31 December 2012

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 13)[2]	4,735	413	1,352	3,329	5,094
Finance lease liabilities (Note 13)	36	12	13	13	38
Convertible bonds (Note 13, 15)	1,529	5	112	1,636	1,753
Trade payables (Note 14)	4,162	4,162	0	0	4,162
Other financial liabilities (Note 14)	91	91	0	0	91
Total	**10,553**	**4,683**	**1,477**	**4,978**	**11,138**

[1]For interest bearing borrowings carrying floating interest rate based on Euribor, the last applied spot rate to loans has been used.

[2]Used overdraft facilities are shown under loans based on the contractual date of payment.

Operational risk

The Group's operations are mostly affected by the cyclical nature of economies in target markets and changes in competitive positions, as well as risks related to specific markets (especially non-European Union markets – Russia and Ukraine).

To manage the risks, the Group attempts to increase the flexibility of its operations: the sales volumes and the activities of competitors are also being monitored and if necessary, the Group makes adjustments in price levels, marketing activities and collections offered. In addition to central gathering and assessment of information, an important role in analysing and planning actions is played by a market organisation in each target market enabling the Group to obtain fast and direct feedback on market developments on one hand and adequately consider local conditions on the other.

Improvement of flexibility plays an important role in increasing the Group's competitiveness. Continuous efforts are being made to shorten the cycles of business processes and minimise potential deviations. This also helps to improve the relative level and structure of inventories and the fashion collections' meeting consumer expectations.

The most important operating risk arises from the Group's inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted. Another important risk is that the Group's information technology system is unable to ensure sufficiently fast and accurate transmission of information for decision-making purposes.

To ensure good collections, the Group employs a strong team of designers who monitor and are aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have been set up at the Group which help daily monitoring of sales and balance of inventories and using the information in subsequent activities. In order to avoid supply problems, cooperation with the world's leading procurement intermediaries as well as fabric manufacturers has been expanded.

The unavoidable risk factor in selling clothes is the weather. Collections are created and sales volumes as well as timing of sales is planned under the assumption that regular weather conditions prevail in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

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Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Loan agreements with the banks include certain restrictions and obligations to provide information to the bank concerning payments of dividends, changes in share capital and in cases of supplementing additional capital.

Commercial code sets requirement to equity level – the required level of equity has to be minimum 50% of share capital.

The Group monitors capital on the basis of net gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as interest carrying borrowings less cash and cash equivalents.

The Group's strategy is to maintain the capital to net gearing ratio under 50%. In 2013 and 2012 this goal was achieved.

Net gearing ratio

	31 Dec 2013	31 Dec 2012
Total borrowings (Note 13)	5,305	6,271
Cash and cash equivalents (Note 4)	-852	-2,078
Net debt	4,453	4,193
Total equity	11,508	10,186
Net gearing ratio	**39%**	**41%**

Fair value

The Group estimates that the fair values of the financial assets (Notes 4-5, 8) and liabilities (Notes 13-14) denominated in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 December 2013 and 31 December 2012.

The carrying amount less an impairment provision of trade receivables and payables is estimated by management to approximate their fair values as trade receivables and payables are short-term.

As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. The Group's risk margins have not changed considerably and are reflecting the market conditions. Based on that, the Management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock exchange or some other active regulated market.
- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.
- Level 3: Financial instruments that are valued by assessment methods based on non-monitored inputs.

If the Group would recognise financial instruments in fair value, they would be classified as Level 3.

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NOTE 4 Cash and cash equivalents

	31 Dec 2013	31 Dec 2012
Cash in hand	295	415
Cash at bank and overnight deposits	557	1,663
Total	**852**	**2,078**

Cash and cash equivalents by currency

	31 Dec 2013	31 Dec 2012
RUB (Russian rouble)	241	510
UAH (Ukrainian hryvnia)	213	144
EUR (euro)	173	1,198
LTL (Lithuanian lit)	126	103
LVL (Latvian lat)	99	123
Total	**852**	**2,078**

For additional information also see Note 3.

NOTE 5 Trade and other receivables

	31 Dec 2013	31 Dec 2012
Trade receivables, net	755	680
Other prepaid expenses[1]	617	763
Tax prepayments and tax reclaims, thereof	79	344
Value added tax	41	233
Prepaid income tax	13	15
Other taxes	25	96
Other prepayments	63	49
Total	**1,514**	**1,836**

[1]Other prepaid expenses include prepaid lease expense of the stores and insurance expenses, prepayment for information technology services and other expenses of similar nature.

Trade receivables by region (client location) and by due date

31 Dec 2013	**Baltic region**	**Eastern European region**	**Other regions**	**Total**
Not due	423	170	28	621
Up to 1 month past due	22	0	37	59
1-3 months past due	3	0	70	73
3-6 months past due	0	0	2	2
Total	**448**	**170**	**137**	**755**

31 Dec 2012	**Baltic region**	**Eastern European region**	**Other regions**	**Total**
Not due	482	96	30	608
Up to 1 month past due	12	0	24	36
1-3 months past due	11	0	9	20
3-6 months past due	0	0	17	17
Total trade receivables, gross	**505**	**96**	**80**	**681**
Allowance for impairment of trade receivables (Note 22)	-1	0	0	-1
Total	**504**	**96**	**80**	**680**

In 2013 irrecoverable receivables in amount of 1 thousand euros were derecognized (2012: 670 thousand euros). In 2013 no doubtful receivables were recognized under allowance for impairment of trade receivables (2012: 1 thousand euros). In 2013 nothing was received for impaired receivables in previous periods. In 2012, 33 thousand euros was received from receivables that were impaired in previous periods.

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Generally from new clients from Eastern Europe prepayments are required. For the wholesale customers, their financial position, past experience and other factors are taken into consideration as the basis for credit control. According to the Group's credit policy, for new clients prepayments or bank guarantees are required and for long-term contractual clients no collaterals to secure the trade receivables are required but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

Information about the receivables from related parties is in Note 26.

Trade receivables (net) in denominated currency

	31 Dec 2013	31 Dec 2012
EUR (euro)	580	425
RUB (Russian rouble)	87	65
LVL (Latvian lat)	45	140
LTL (Lithuanian lit)	24	20
UAH (Ukrainian hryvnia)	19	30
Total	**755**	**680**

For additional information also see Note 3.

NOTE 6 Inventories

	31 Dec 2013	31 Dec 2012
Fabrics and accessories	2,192	2,281
Work-in-progress	72	69
Finished goods and goods purchased for resale	11,306	9,330
Allowance for impairment of finished goods and goods purchased for resale	-342	-460
Prepayments to suppliers	523	251
Total	**13,751**	**11,471**

As at 31 December 2012 "Finished goods and goods purchased for resale" contain inventory acquired in Bastion business combination (331 thousand euros).

For additional information also see Note 2, 27.

NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2013

	Baltic region	East- European region	Total
Deferred income tax asset			
On PPE and other tax based differences[1]	-46	58	12
On tax loss carry-forwards	422	60	482
Total	**376**	**118**	**494**
Deferred income tax asset, net, thereof	**376**	**118**	**494**
Non-current portion	376	118	494
Deferred income tax expense (Note 24)	**-143**	**0**	**-143**

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Deferred income tax as at 31 December 2012

	Baltic region	East- European region	Total
Deferred income tax asset			
On PPE and other tax based differences[1]	-29	20	-9
On tax loss carry-forwards	548	98	646
Total	**519**	**118**	**637**
Deferred income tax asset, net, thereof	**519**	**118**	**637**
Non-current portion	519	118	637
Deferred income tax expense (Note 24)	**-55**	**-146**	**-201**

[1]Income tax liability can be settled against deferred tax assets in one country/company, therefore a deferred tax asset is recognised.

The recovery of the deferred income tax asset arising from tax loss carry-forwards is dependent on future taxable profits of subsidiaries that have to exceed the existing losses to be carried forward. An analysis of expected future profits was carried out when preparing the financial statements. The presumption of profit is dependable on attainment of each respective company strategic goals. The deferred tax asset resulting from losses carried forward is recognised to the extent that the realisation of the related tax benefit through the future profits is probable.

The Group did not recognise in the statement of financial position deferred income tax assets of 645 thousand euros (31 December 2012: 864 thousand euros) in respect of losses and other tax based differences amounting to 3,255 thousand euros (31 December 2012: 4,279 thousand euros) that can be carried forward against future taxable income. Losses and other tax based differences expire within the following ten years after the balance sheet or can be used for unlimited period.

For additional information also see Note 2.

NOTE 8 Other non-current assets

	31 Dec 2013	31 Dec 2012
Non-current portion of lease prepayments[1]	549	461
Other long-term receivables[2]	464	627
Total other non-current assets	**1,013**	**1,088**

[1]Non-current portion of lease prepayments arise from lease agreements of the Group's retail subsidiaries.

[2]Other long term receivables consist of the receivables from the sale of property and assets, trademarks MasCara and Herold and also receivables from the sale of real-estate (Note 9).

Credit risk arises from other long-term receivables (Note 3). The Group monitors continuously outstanding credit amount and the adherence to agreed dates. All receivables are paid according to contractual schedule.

NOTE 9 Investment property

	2013	2012
Balance at 1 January	**0**	**8,549**
Disposal	0	-8,549
Balance at 31 December	**0**	**0**

	2013	2012
Lease revenue from investment properties (Note 17)	0	403
Direct operating expenses from investment properties (Note 12)	0	29
Net lease revenue from investment properties	**0**	**374**

Movements in 2012

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Investment property consisted of 4,500 square metres of land and two office buildings, located at 24 Veerenni in Tallinn, Estonia. Real estate space that was used by Group was recorded as property, plant and equipment.

In line with the plan to exit operating real estate and focus on its core business, AS Baltika´s subsidiary OÜ Baltika TP sold the real-estate property to AS Kawe Group on 31 July 2012 (see also Note 10).

The transaction price was 13.6 million euros of which 13 million euros was settled at the time of selling and 0.6 million will be settled within five years.

Proceeds from the sale of the real-estate were used to reduce the Group´s borrowings (loan liabilities decreased by 13 million euros). The proceeds of 13 million were paid to the bank directly by the purchaser, as a result the transaction had no effect to cash flow. As a result of the transaction Baltika´s investment property and property, plant and equipment in the amount of 13.6 million euros decreased in full. Short and long term receivables increased by a total of 0.6 million euros.

The Group continues to rent the space on operating lease terms for its head office and store "Moetänav" in the same location (Note 12, 16).

NOTE 10 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Total
At 31 December 2011					
Acquisition cost	**9,231**	**5,633**	**6,691**	**0**	**21,555**
Accumulated depreciation	-3,360	-4,655	-5,509	0	-13,524
Net book amount	**5,871**	**978**	**1,182**	**0**	**8,031**
Additions	326	126	253	4	709
Disposals (Note 22)	-5,031*	-39	-6	0	-5,076
Reclassifications to/from inventories	0	0	11	0	11
Reclassification	-21	4	17	0	0
Depreciation (Note 18-20)	-469	-384	-578	0	-1,431
Currency translation differences	-4	9	8	-1	12
At 31 December 2012					
Acquisition cost	**3,975**	**5,480**	**6,645**	**3**	**16,103**
Accumulated depreciation	-3,303	-4,786	-5,758	0	-13,847
Net book amount	**672**	**694**	**887**	**3**	**2,256**
Additions	777	399	954	0	2,130
Disposals (Note 22)	-12	-2	-5	0	-19
Reclassifications to/from inventories	0	0	4	0	4
Reclassification	0	-25	28	-3	0
Depreciation (Note 18-20)	-482	-324	-475	0	-1,281
Currency translation differences	-29	-17	-21	0	-67
At 31 December 2013					
Acquisition cost	**4,318**	**5,410**	**7,041**	**0**	**16,769**
Accumulated depreciation	-3,392	-4,685	-5,669	0	-13,746
Net book amount	**926**	**725**	**1,372**	**0**	**3,023**

*The real estate property in Veerenni 24 was sold on 31. July 2012, see more details in Note 9.
Details of assets acquired under finance lease terms are shown in Note 12.

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NOTE 11 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
At 31 December 2011					
Acquisition cost	**2,187**	**643**	**10**	**2,218**	**5,058**
Accumulated amortisation	-1,222	-171	0	0	-1,393
Net book amount	**965**	**472**	**10**	**2,218**	**3,665**
Additions[1]	132	600	0	0	732
Disposals	-2	0	-10	0	-12
Amortisation (Note 18-20)	-265	-33	0	0	-298
Currency translation differences	2	0	0	61	63
At 31 December 2012					
Acquisition cost	**2,296**	**1,243**	**0**	**2,279**	**5,818**
Accumulated amortisation	-1,464	-204	0	0	-1,668
Net book amount	**832**	**1,039**	**0**	**2,279**	**4,150**
Additions	67	0	0	0	67
Disposals	-12	0	0	0	-12
Amortisation (Note 18-20)	-267	-45	0	0	-312
Currency translation differences	-4	0	0	-196	-200
At 31 December 2013					
Acquisition cost	**2,191**	**1,243**	**0**	**2,083**	**5,517**
Accumulated amortisation	-1,575	-249	0	0	-1,824
Net book amount	**616**	**994**	**0**	**2,083**	**3,693**

[1]Additions include assets acquired in the Bastion business combination 709 thousand euros (Note 27).

The useful life-time at the end of the reporting period for trademarks is up to 49 years.

Impairment tests for goodwill

Goodwill, carrying value as at 31 December 2013 2,083 thousand euros (31 December 2012: 2,279 thousand euros), is tested for impairment at each balance sheet date. The carrying amount of goodwill applicable to CGUs (cash generating units) of Russian group entities, Baltika Tailor OÜ and SIA Baltika Latvija was tested for impairment at 31 December 2013. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

	Baltika Tailor CGU		Russian group entities CGU		Baltika Latvija CGU	
Balance at 31 December	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Carrying amount of goodwill	355	355	1,573	1,769	155	155
Growth in revenue[1]	4.3%	4.4%	2.6%	6.8%	4.4%	4.5%
Growth rate[2]	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate[3]	11.4%	9.1%	13.7%	13.9%	11.2%	9.3%
Difference between recoverable and carrying amount	1,348	1,128	943	10,629	39,424	15,889

[1]Management determined average annual growth in revenue for Baltika Tailor and sales efficiency per square metre for Russian group entities and Baltika Latvija (decreasing growth trend over the period of cash flow projections) for the five-year period.
[2]Growth rate used to extrapolate cash flows beyond the year 2018.
[3]Pre-tax discount rate applied to the cash flow projections (WACC). The change in discount rates results from changes in industry indicators for the specific region.

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The growth rates used for projections have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the projected future years in the respective region. The weighted average cost of capital (WACC) used was pre-tax and reflects specific risks applicable to the specific market and industry sector.

The tests resulted in recoverable value exceeding the carrying amount of the cash generating unit and consequently no impairment losses have been recognised. If the average annual growth in sales efficiency were 2.13% and -9.7% for Russian entities and SIA Baltika Latvija respectively the recoverable amount would have been be equal to the carrying amount (31 December 2012: respectively 2.35% and -0.4%). If the average annual growth in sales for Baltika Tailor were -2.3% (31 December 2012 -0.2%) the recoverable amount would have been equal to the carrying amount. If the average annual gross profit margin were lower by 44.00%, 1.8% and 2.4% for SIA Baltika Latvija, Russian group entities and Baltika Tailor respectively the recoverable amount would have been equal to the carrying amount (31 December 2012: respectively 19.05%, 16.67%, 1.8%). Under reasonably possible changes to discount rate the carrying amount would not exceed the recoverable amount (Note 2).

NOTE 12 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31 Dec 2013	31 Dec 2012
Up to 1 year	4,738	5,192
1-5 years	5,506	7,001
Over 5 years	2,110	2,821
Total	**12,354**	**15,014**

Operating lease expenses arise from lease of stores, production facility and with disposal of real-estate from lease of the head-office. The lease agreements for stores are predominantly not binding for long-term and can be terminated mostly less than 12-months notice.

The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements which stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation. In 2013, operating lease payments amounted to 11,598 thousand euros (2012: 10,812 thousand euros) (Note 18-20).

Finance lease – the Group as the lessee

	Machinery and equipment	Other fixtures	Total
At 31 December 2012			
Acquisition cost	**1,024**	**278**	**1,302**
Accumulated depreciation	-829	-101	-930
Net book amount	**195**	**177**	**372**
Additions	295	0	**295**
Depreciation	-65	-30	**-95**
At 31 December 2013			
Acquisition cost	**1,244**	**273**	**1,517**
Accumulated depreciation	-819	-126	-945
Net book amount	**425**	**147**	**572**

Detailed information on minimum finance lease payments by maturity is disclosed in Note 3. The carrying amounts of finance lease liabilities at the balance sheet date are disclosed in Note 13.

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In 2013, the Group settled finance lease payments in the amount of 39 thousand euros (2012: 131 thousand euros).

NOTE 13 Borrowings

	31 Dec 2013	31 Dec 2012
Current borrowings		
Current portion of long-term bank loans (Note 3)	2,341	1,570
Current bank loans (Note 3)	652	0
Current finance lease liabilities (Note 3, 12)	39	23
Other current loans (Note 3)	126	0
Convertible bonds (Note 3, 26)	0	5
Total	**3,158**	**1,598**
Non-current borrowings		
Non-current bank loans (Note 3)	2,031	3,165
Non-current finance lease liabilities (Note 3, 12)	116	13
Convertible bonds (Note 3, 26)	24	1,524
Total	**2,171**	**4,702**
Total borrowings	**5,329**	**6,300**

As at 31 December 2013 the unamortised transactions costs amounted to 3 thousand euros (31 December 2012: 5 thousand euros).

During the reporting period, the Group made loan repayments in the amount of 2,280 thousand euros (2012: 14,091 thousand euros; see also Note 9, where the impact to cash-flow is described). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 339 thousand euros (2012: 877 thousand euros), including 48 thousand euros (2012: 72 thousand euros) interest expense from convertible bonds (Note 15). Group´s overdraft facilities with the banks were used in the amount of 1,566 thousand euros as at 31 December 2013 (31 December 2012: 0 thousand euros).

Changes in 2013

In the second quarter the Group received loan in the amount of 1,000 thousand euros under the agreement signed in 2012.

In the third and fourth quarter the Group signed annexes under an existing loan agreement, which increased overdraft limit for one quarter in the amount of 1,500 thousand euros.

In December the Group restructured another existing loan agreement: a contract was terminated and contractual obligations were paid. At the same time in December a new overdraft contract was signed.

In December a loan agreement with a related party was signed, with existing obligations converted into loan in the amount of 126 thousand euros with an interest rate of 7% (Note 26).

In August H-bonds were converted into shares. See more in Note 15.

Changes in 2012

In May 2012 the Group signed an agreement with a related party, according to which two-year term convertible bonds were issued. The bonds were paid for partly with monetary contribution (203 thousand euros) and partly by off-setting AS Baltika´s liabilities to the related party (1,297 thousand euros).

In 2012 an annex to a previous loan agreement and received a loan in the amount of 2,000 thousand euros.

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Borrowings at nominal value in denominated currency

	31 Dec 2013	31 Dec 2012
EUR (euro)	5,305	6,270
Other currencies	0	1
Total	**5,305**	**6,271**

Interest carrying loans of the Group as at 31 December 2013

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month Eonia)	5,024	EURIBOR or EONIA+4,36%
Borrowings at fixed interest rate (Note 26)	126	7.00%
Total	**5,150**	

Interest carrying loans of the Group as at 31 December 2012

	Balance	Average risk premium
Borrowings at floating interest rate (based on1-month and 6-month Euribor)	4,735	EURIBOR+4,28%
H-bonds (Note 15, 26)	1,500	7.50%
Total	**6,235**	

The loan contracts of the Group include several covenants that may require early repayment of loans if the borrower does not fulfil the terms specified in the contract including:

- requirement to equity level;
- limited rights for incurring additional liabilities;
- limited rights for paying dividends and deciding to issue share capital;
- required ratios calculated on financial data etc.

The Group's collaterals for bank borrowings

As at 31 December 2013 the bank borrowings were secured with following asset types:

- commercial pledge to movables;
- trademarks;
- shares of the subsidiaries;
- cash equivalents on the bank accounts

As at 31 December 2013 carrying amount of assets pledged was 14,486 thousand euros, including inventories in amount of 11,031 thousand euros, property, plant and equipment in amount of 2,316 thousand euros, intangible assets in amount of 956 thousand euros and cash on the bank accounts 183 thousand euros.

As at 31 December 2012 carrying amount of assets pledged was 15,742 thousand euros, including inventories in amount of 11,223 thousand euros, property, plant and equipment in amount of 2,256 thousand euros, intangible assets in amount of 1,216 thousand euros and cash on the bank accounts 1,047 thousand euros.

Bank loans set certain level to financial ratios for the Group. As at 31 December 2013 Baltika, was not compatible with some of the terms and conditions of the loan agreement, but the bank has confirmed that the loan will not become due and payable prematurely during 2014. As at 31 December 2012 there were no conflicts to the set financial ratios.

For additional information also see Note 3.

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NOTE 14 Trade and other payables

	31 Dec 2013	31 Dec 2012
Trade payables (Note 3)	4,966	4,162
Tax liabilities, thereof	1,352	1,218
Personal income tax	228	171
Social security tax and unemployment insurance premium	539	454
Value added tax	541	565
Corporate income tax liability	17	11
Other taxes	27	17
Payables to employees[1]	1,088	1,234
Other accrued expenses (Note 3)	2	91
Customer prepayments	20	24
Other current payables	75	276
Total	**7,503**	**7,005**

Non-current liabilities		
Other liabilities	0	25

[1]Payables to employees consist of accrued wages, salaries and vacation accrual.

Tax authorities are entitled to check the Group's tax accounting up to within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. The tax legislation of the countries the Group is operating which was enacted or substantively enacted at the end of the reporting period may be subject to varying interpretations. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

Trade payables and other accrued expenses in denominated currency

	31 Dec 2013	31 Dec 2012
EUR (euro)	3,526	2,822
USD (US dollar)	1,189	1,121
LVL (Latvian lat)	71	98
LTL (Lithuanian lit)	71	72
GBP (British pound)	66	15
UAH (Ukrainian hryvnia)	24	45
RUB (Russian rouble)	21	80
Total	**4,968**	**4,253**

For additional information also see Note 3.

NOTE 15 Equity

Share capital

	31 Dec 2013	31 Dec 2012
Share capital (th. EUR)	8,159	7,159
Number of shares (pcs)	40,794,850	35,794,850
Nominal value of shares (EUR)	0.20	0.20

As at 31 December 2013 and 31 December 2012 shares comprise only ordinary shares, which are listed on the Tallinn Stock Exchange.

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Change in the number of shares

	Number of shares
Number of shares 31 December 2012	**35,794,850**
Issued (bond conversion)	5,000,000
Number of shares 31 December 2013	**40,794,850**

As at 31 December 2013 and 31 December 2012, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for.

Changes in share capital

Changes in 2013

On 6 June 2013 related party, KJK Fund, Sicav-SIF, submitted a request to exchange convertible H-bonds for shares.

In August 2013 the bonds were converted into shares. As the result of the conversion – the borrowings, that had become current borrowings at the moment of request, decreased by 1,500 thousand euros. Equity increased in the same amount: share capital by 1,000 thousand euros and share premium by 500 thousand euros. After the registration of new shares AS Baltika has 40,795 thousand ordinary shares with the nominal value of 0.2 euros per share.

Changes in 2012

On 20 April 2012 the annual general meeting of shareholders decided to decrease the nominal value of the share from 0.7 euros to 0.2 euros. Accordingly the meeting decided to decrease share capital to 7,159 thousand euros: retained earnings increased by 16,715 thousand euros and statutory reserve increased by 1,182 thousand euros.

Convertible bonds and share options

	Issue date	Bond conversion period	Number of convertible bonds 31 Dec 2013	Number of convertible bonds 31 Dec 2012
H-Bond	11 May 2012	11 May 2013 - 10 May 2014	0	5,000,000
I-Bond	30 June 2012	01 July 2015 - 31 Dec 2015	2,350,000	2,350,000

- I-bonds

The annual general meeting of shareholders held on 20 April 2012 decided to issue 2,350,000 convertible bonds (I-bond) with the nominal value 0.01 euros. Each bond gives its owner the right to subscribe one share of the Company with a nominal value of 0.20 euros. The share subscription price is 0.36 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 01 July 2015 until 31 December 2015. The bonds were issued to the management of Baltika Group companies.

The consideration of I-bonds in the amount of 24 thousand euros is recognised under "Borrowings" in non-current liabilities as at 31 December 2013 (Note 13).

The accounting policies described in IFRS 2 have been applied to account for the I-bonds. During 2013, the fair value of employee services received under the share options programme was recognised as payroll expenses and a respective increase of share premium in owner's equity, amounted to 125 thousand euros (2012: 63 thousand euros).

The fair value of the services (employee contribution) received by the entity from the employees in exchange for the shares, was determined by reference to the fair value of the convertible bonds granted. The fair value of I-bonds was valued by Management. The Black-Scholes option pricing model was used in valuing the convertible bonds. The following parameters were used in determination of the price of the instrument: share price at the date prior to the grant date, exercise price, weighted average share price, expected volatility by a reference to the history of volatility based on the history of fluctuations of the market prices of the share and the expected life of the option. The fair value of the services was 0.17 euro per one convertible I-bond.

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- H-bonds

The annual general meeting of shareholders held on 20 April 2012 decided to issue 5,000,000 convertible bonds (H-bond) with the nominal value 0.30 euros. Each bond gives its owner the right to subscribe one share with a nominal value of 0.20 euros. The share subscription price is 0.30 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 11 May 2013 until 10 May 2014. The annual interest of bonds is 7.5%. The mentioned convertible bonds were issued to a related party with significant influence KJK Fund, Sicav-SIF.

The consideration of H-bond (Note 13) received in the amount of 1,500 thousand euros was recognised under “Borrowings” in non-current liabilities as at 31 December 2012.

The bonds were paid for partly with monetary contribution (203 thousand euros) and partly by off-setting AS Baltika´s liabilities to the related party (liabilities in the amount of 1,046 thousand euros arising from the loan agreement signed in December 2011 and liabilities in the amount of 250 thousand euros arising from the loan agreement signed in November 2011, previously classified as an equity instrument in reserves). A liability component was recognised at the issuance of the bonds, interest rate of the bonds is comparable with market interest rate.

As at 31 December 2013 H-bonds had been converted into shares.

Reserves

	31 Dec 2013	31 Dec 2012	Change	31 Dec 2011
Statutory reserve	1,182	1,182	530[1]	652
Revaluation surplus (Note 9)	0	0	-1,592	1,592
Other reserves	0	0	-250	250
Total	**1,182**	**1,182**	**-1,312**	**2,494**

[1]the change consists of two factors: offsetting losses in the amount of 651 thousand and decrease of share capital in the amount of 1,182 thousand euros.

On 20 April 2012 the annual general meeting of shareholders decided to approve the offsetting of losses recommended by the Management Board: statutory reserve was used to cover the 2011 loss by 651 thousand euros and share premium by 89 thousand euros.

In accordance with the sale of investment property the revaluation surplus decreased and retained earnings increased in the amount of 1,592 thousand euros (Note 9). The revaluation reserve was recognized in previous periods as a result of reclassification of property, plant and equipment to investment property.

On 30 November 2011 an agreement was signed with a related party that existing liabilities (dividends from preference shares and emission guarantee costs) were converted to loan that carried no interest. The lender also took the obligation to convert the loan to convertible bonds if the ordinary annual general meeting resolves to issue them. Based on the agreement the loan was classified as an equity instrument in reserves. On 20 April 2012 the general meeting of shareholders decided to issue convertible bonds and in May 2012 an agreement with a related party was signed, according to which the equity instrument (loan carrying no interest) was offset with convertible bonds (Note 13).

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Shareholders as at 31 December 2013

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	6,505,350	15.95%
3. BMIG OÜ*	4,750,033	11.64%
4. Skandinaviska Enskilda Banken Ab clients	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,645,000	4.03%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	743,531	1.82%
Maire Milder	316,083	0.77%
Andrew Paterson	11,000	0.03%
Persons related to members of Management Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	9,807,712	24.05%
Total	**40,794,850**	**100.00%**

Shareholders as at 31 December 2012

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. Clearstream Banking Luxembourg S.A. clients	6,556,115	18.32%
3. BMIG OÜ	4,750,033	13.27%
4. Skandinaviska Enskilda Banken Ab clients	3,407,532	9.52%
5. Svenska Handelsbanken clients	1,690,000	4.72%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	743,531	2.08%
Maire Milder	316,083	0.88%
Andrew Paterson	11,000	0.03%
Persons related to members of Management Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.80%
7. Other shareholders	9,719,115	27.15%
Total	**35,794,850**	**100.00%**

The shares of the Parent company are listed on the Tallinn Stock Exchange. The Parent company does not have a controlling shareholder or any shareholders jointly controlling the entity. The investment company OÜ BMIG is under the control of the Management Board members of the Parent company.

Retained earnings

As the reduction of share capital was conducted through a simplified procedure in 2012, according to the Commercial Code, a restriction applies to the distribution of dividends for up to three years.

NOTE 16 Segments

The Group's chief operating decision maker is the Management Board of the Parent company AS Baltika. The Parent company's Management Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management Board has determined the operating segments based on these reports.

Parent company's Management Board assesses the performance from operations area perspective i.e. the performance of retail, wholesale and real estate management is assessed. Retail is further evaluated on a geographic basis. The retail segments are countries which have been aggregated to reportable segments by regions which share similar economic characteristics and meet other aggregation criteria provided in IFRS 8:

- Baltic region consists of operations in Estonia, Latvia and Lithuania;
- Eastern European region consists of operations in Russia and Ukraine;

The Parent company's Management Board assesses the performance of the operating segments based on a measure of external revenue and segment profit. External revenue amounts provided to Management Board are measured in a manner consistent with that of the financial statements. The

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segment profit is an internal measure used in the internally generated reports to assess the performance of the segments and comprises segment's gross profit less operating expenses directly attributable to the segment, except for other operating income and expenses. The amounts provided to Management Board with respect to inventories are measured in a manner consistent with that of the financial statements. The segment inventories include those operating inventories directly attributable to the segment or those that can be allocated to the particular segment based on the operations of the segment and the physical location of the inventories.

Management Board also monitors Group´s results by shops and brands. The managing of the Group is done shop-by-shop basis, aggregated on a matrix basis for different decision purposes. For presenting segment reporting the Management Board has chosen aggregation on geographical and sales-channel bases. Primarily Management Board decisions, which are connected to investing and resource allocation, are based on the segments disclosed in this note.

The segment information provided to the Management Board for the reportable segments for the year ended at 31 December 2013 and at 31 December 2012

	Retail Baltic region	Retail Eastern Europe	Whole-sale[1]	Real estate manage-ment	Total segments
2013 and at 31 December 2013					
Revenue (from external customers)	39,152	15,440	3,761	0	58,353
Segment profit (loss)[2]	8,589	-492	1,000	0	9,097
Incl. depreciation and amortisation	-620	-392	-7	0	-1,019
Inventories of segments	4,620	2,197	0	0	6,817
2012 and at 31 December 2012					
Revenue (from external customers)	36,097	16,568	3,264	403	56,332
Segment profit [2]	8,307	86	932	374	9,699
Incl. depreciation and amortisation	-721	-441	0	0	-1,162
Inventories of segments	3,893	2,087	0	0	5,980

[1]The wholesale segment includes the sale of goods, materials and sewing services and the sales from e-commerce.

[2]The segment profit is the segment operating profit, excluding other operating expenses and income.

Reconciliation of segment operating profit to consolidated operating profit

	2013	2012
Total segment profit	9,097	9,699
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-5,328	-5,175
Administrative and general expenses	-2,869	-2,722
Other operating income (expenses), net	-249	157
Operating profit	**651**	**1,959**

[1]Unallocated expenses include the expenses of the parent company and production companies which are not allocated to the reportable segments in internal reporting.

Reconciliation of segment inventories to inventories on consolidated statement of financial position

	31 Dec 2013	31 Dec 2012
Total inventories of segments	6,817	5,980
Inventories in Parent company and production company	6,934	5,491
Inventories on statement of financial position	**13,751**	**11,471**

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Distribution of non-current assets (except for financial assets and deferred tax assets) by location of assets

	31 Dec 2013	31 Dec 2012
Retail, Baltic region	1,860	1,160
Retail, Eastern Europe	2,305	2,445
Wholesale	4	0
Assets in parent company and production company	2,547	2,801
Total	**6,716**	**6,406**

In July 2012 AS Baltika sold its real-estate, which resulted in the Group exiting real-estate business, more detailed info in Note 9.

NOTE 17 Revenue

	2013	2012
Sale of goods	58,227	55,683
Lease revenue (Note 12)	0	403
Other	126	246
Total	**58,353**	**56,332**

Sales by geographical (client location) areas

	2013	2012
Estonia	19,576	18,025
Lithuania	11,191	10,946
Latvia	10,159	9,194
Russia	9,494	10,174
Ukraine	6,537	6,819
Finland	792	642
Germany	356	454
Other countries	248	78
Total	**58,353**	**56,332**

NOTE 18 Cost of goods sold

	2013	2012
Materials and supplies	22,794	21,597
Payroll costs in production	3,158	2,765
Operating lease expenses (Note 12)	667	633
Other production costs	450	408
Depreciation of assets used in production (Note 10,11)	187	202
Change in allowance for inventories	-118	10
Total	**27,138**	**25,615**

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NOTE 19 Distribution costs

	2013	2012
Payroll costs	10,756	10,136
Operating lease expenses (Note 12)	10,491	9,996
Advertising expenses	1,432	1,262
Depreciation and amortisation (Note 10,11)	1,246	1,285
Fuel, heating and electricity costs	711	655
Fees for card payments	446	407
Municipal services and security expenses	367	254
Travel expenses	269	220
Information technology expenses	210	202
Consultation and management fees	173	211
Communication expenses	152	143
Other sales expenses[1]	1,193	1,422
Total	**27,446**	**26,193**

[1]Other sales expenses mostly consist of insurance and customs expenses, bank fees, expenses for uniforms, packaging, transportation, renovation of stores and service fees connected to administration of market organisations.

For additional information also see Note 26.

NOTE 20 Administrative and general expenses

	2013	2012
Payroll costs[1]	1,283	1,273
Operating lease expenses (Note 12)	440	183
Information technology expenses	258	235
Bank fees	227	237
Depreciation and amortisation (Note 10,11)	141	228
Management, juridical-, auditor´s and other consulting fees	113	261
Fuel, heating and electricity expenses	102	86
Sponsorship, gifts, donations	56	68
Other administrative expenses[2]	249	151
Total	**2,869**	**2,722**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount of 125 thousand euros (2012: 63 thousand euros), see Note 21, 15.

[2]Other administrative expenses consist of insurance and office expenses, communication, travel, training, municipal and security expenses and other services.

For additional information see Note 26.

NOTE 21 Wages and salaries

	2013	2012
Payroll costs	11,409	10,645
Social security costs	3,663	3,466
Payroll expenses related to share options (Note 20)	125	63
Total	**15,197**	**14,174**

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NOTE 22 Other operating income and expenses

	2013	2012
Loss from sale, impairment of PPE, non-current assets and investment property	-20	-35
Realization of impaired assets in previous periods	0	33
Other operating income	137	292
Foreign exchange losses	-331	-76
Fines, penalties and tax interest	-15	-25
Other operating expenses	-20	-32
Total	**-249**	**157**

For additional information also see Note 10, 11, 27.

NOTE 23 Finance income and costs

	2013	2012
Interest income	6	0
Interest costs	-339	-877
Foreign exchange gain	0	61
Other finance costs	-49	-87
Total	**-382**	**-903**

For additional information also see Note 25.

NOTE 24 Income tax

	2013	2012
Current income tax expense	24	50
Deferred income tax expense (Note 7)	143	201
Income tax expense	**167**	**251**

Income tax calculated on the profits of the Group’s subsidiaries based on the nominal tax rate differs from effective income tax expense for the reasons presented below.

Income tax by regions for the year ended at 31 December 2013

	Baltic region	Eastern European region	Total
Profit (loss) before tax	-178	447	269
Average nominal tax rate	0-15%	18-20%	0-20%
Tax calculated from profit at the nominal tax rate	146	85	231
The effect of income/expenses not deductible for tax purposes	-21	-8	-29
Utilisation of tax losses carried forward/additions of tax profits	-125	-45	-170
Changes in recognised balance sheet deferred tax assets	143	0	143
Changes in currency rates	0	-8	-8
Current income tax expense	**0**	**24**	**24**
Deferred income tax expense (Note 7)	**143**	**0**	**143**
Changes in off balance sheet deferred tax assets	0	-219	-219

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Income tax by regions for the year ended at 31 December 2012

	Baltic region	Eastern European region	Total
Profit (loss) before tax	1 696	-640	1 056
Average nominal tax rate	0-15%	20-21%	0-21%
Tax calculated from profit (loss) at the nominal tax rate	151	-131	20
Withheld tax	26	0	26
The effect of income/expenses not deductible for tax purposes	25	105	130
Utilisation of tax losses carried forward/additions of tax profits	-176	56	-120
Changes in recognised balance sheet deferred tax assets	55	146	201
Changes in currency rates	0	-6	-6
Current income tax expense	**26**	**24**	**50**
Deferred income tax expense (Note 7)	**55**	**146**	**201**
Changes in off balance sheet deferred tax assets	-99	-87	-186

NOTE 25 Earnings per share

Basic earnings per share		**2013**	**2012**
Weighted average number of ordinary shares (thousand)	pcs	38,644	35,795
Net profit attributable to equity holders of the parent	EUR '000	102	804
Basic earnings per share	**EUR**	**0.00**	**0.02**

Diluted earnings per share	**2013**	**2012**
Net profit attributable to equity holders of the parent	102	804
Interest expense on convertible debt	0	72
Profit used to determine diluted earnings per share	**102**	**876**
Weighted average number of ordinary shares (thousands)	38,644	35,795
Adjustments for:		
-assumed conversion of I-bonds (thousands)	701	0
-assumed conversion of H-bonds (thousands)	0	3 210
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**39,345**	**39,005**
Diluted earnings per share	**0.00**	**0.02**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The company had two types of potential ordinary shares (Note 15):

- H-bonds in 2012;
- I-bonds in 2013.

For the calculation of diluted earnings per share H-bonds were anti-dilutive and resulted in nil adjustments to earnings and shares. In 2012 H-bonds assumed to have been converted into ordinary shares and the net profit is adjusted by eliminating the interest expense.

For the share options (I-bonds), a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company´s share) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares, calculated as above, was compared with the number of shares that would have been issued assuming the exercise of the share options. In 2013 I-bonds were dilutive. In 2012 the I-bonds were considered not dilutive.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2013 was 0.74 euros (2012: 0.44 euros).

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NOTE 26 Related parties

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the financial and management decisions of the other one in accordance with IAS 24, Related Party Disclosures. Not only the legal form of the transactions and mutual relationships, but also their actual substance has been taken into consideration when defining related parties.

For the reporting purposes in consolidated annual statements of the Group, the following entities have been considered related parties:

- owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 15);
- members of the Management Board and the Supervisory Council[1];
- close family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members;

[1]Only members of the Parent company Management Board and Supervisory Council are considered as key management personnel, as only they have responsibility for planning, directing and controlling Group activities.

Transactions with related parties

	2013		2012	
	Purchases	Sales	Purchases	Sales
Goods	0	0	1	8
Services	238	0	303	0
Total	**238**	**0**	**304**	**8**

In the reporting period AS Baltika bought mostly management, communication and other services from related parties. In 2012 AS Baltika bought mostly management and other services from related parties. See also Notes 17, 19, 20.

Balances with related parties

	31 Dec 2013	31 Dec 2012
Other current receivables (Note 5)	0	1
Total	**0**	**1**

	31 Dec 2013	31 Dec 2012
Other current loans and interests (Note 13, 14)	145	1,592
Trade payables (Note 14)	50	18
Total	**195**	**1,610**

All transactions in 2013 as well as in 2012 and balances with related parties as at 31 December 2013 and 31 December 2012 were with entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members. As at 31 December 2013 and 31 December 2012 the balances from borrowings, interests are partly with counterparty, who is also a shareholder that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	2013	2012
Salaries of the members of the Management Board	338	345
Remuneration of the members of the Supervisory Council	18	22
Total	**356**	**367**

As at 31 December 2013 and 31 December 2012 there were five Management Board and five Supervisory Council Members. In the reporting period no changes took place composition of Management Board or Supervisory Council.

In 2012 one member joined the Management Board. In 2012 one member joined the Supervisory Council and term of office expired for two members of the Supervisory Council.

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No compensations for terminating Management Board or Supervisory Council status were paid.

The termination benefits for the members of the Management Board are limited to 3-18 month's salary expense in the amount that is approximately 198 thousand euros (2012: 188 thousand euros) in total in case of premature termination.

In 2012 convertible bonds (H-bonds) were issued to related party. Share options I-bonds are partly issued to related parties (Note 13, 15).

NOTE 27 Business combinations

Acquisition of Bastion trademark in 2012

On 29 November 2012 AS Baltika signed agreements, according to which the Group purchased the Bastion trademark and seven stores operated under the Bastion trade name.

Addition of Bastion to the brand portfolio allowed the Group to expand its target group of customers, to offer a wider product range and to increase its market share in the Baltics.

The transaction was not considered as significant transaction and did not have significant impact on the Group results. The purchase price was paid in cash and was divided into two parts. The purchase included the purchase of the trademark, store fixtures, inventory and other assets.

As a result of the acquisition AS Baltika recognised a gain on bargain purchase, under „Other operating income" (Note 22). Gain was the result of a bargain price when compared with other similar transactions in the market. Baltika recognised assets and liabilities acquired in the transaction based on their fair value: trademark and other intangible assets (Note 11), inventory (Note 6).

NOTE 28 Subsidiaries

Changes in 2013

In the third quarter of 2013 the structure of Group entities in Russian market was changed to minimize administrative burden. As at 31 December 2013 subsidiary OOO Kompania „Baltman RUS" does not belong to Group companies. Transaction has no effect to Group assets or results.

Also a change in the Ukrainian market took place in the third quarter. A new company "Baltika Retail Ukraina Ltd" was formed by splitting the already existing company in that market. As at 31 December 2013 subsidiary Baltika Ukraina Ltd does not belong to Group companies. There is no effect to Group' assets or results.

Changes in 2012

On 24 May 2012 AS Baltika acquired the remaining 6.2% of the shares of its subsidiary AS Virulane. As a result of this transaction AS Baltika became the 100% holder of its subsidiary. The difference between the carrying amount of non-controlling interest acquired and the consideration paid was recognised in parent´s equity:

	2012
Carrying amount of non-controlling interest acquired	166
Consideration paid for non-controlling interest	-91
Total (recognised in equity)	**75**

In June 2012 a merger agreement between Virulane AS and Baltika AS was signed, date of merger was 01 January 2012.

NOTE 29 Events after the balance sheet date

The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments.

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The political system of Ukraine experienced instability in late 2013 and early 2014 with a number of protests against the Government's actions. At the end of January 2014, the President of Ukraine accepted the resignation of Ukraine's Prime Minister and the Government. Following this, the Russian Government suspended the support of the Ukrainian Government and Moody's Investors Service downgraded Ukraine's government bond rating to Caa2 from Caa1 with a negative outlook. During January-February 2014, the Ukrainian Hryvnia devalued against the major world currencies.

These and other events may have a significant impact on the Group's operations and financial position.

NOTE 30 Supplementary disclosures on the parent company of the Group

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

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Statement of financial position of the parent company

	31 Dec 2013	31 Dec 2012
ASSETS		
Current assets		
Cash and cash equivalents	42	870
Trade and other receivables	8,687	8,022
Inventories	6,850	5,376
Total current assets	**15,579**	**14,268**
Non-current assets		
Investments in subsidiaries	5,673	5,693
Other non-current receivables	4,064	7,077
Property, plant and equipment	322	384
Intangible assets	1,472	1,602
Total non-current assets	**11,531**	**14,756**
TOTAL ASSETS	**27,110**	**29,024**
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	3,119	1,582
Trade and other payables	19,647	16,138
Total current liabilities	**22,766**	**17,720**
Non-current liabilities		
Borrowings	2,054	4,689
Total non-current liabilities	**2,054**	**4,689**
TOTAL LIABILITIES	**24,820**	**22,409**
EQUITY		
Share capital at par value	8,159	7,159
Share premium	684	63
Statutory reserve	1,182	1,182
Retained earnings (losses)	-7,735	-1,789
TOTAL EQUITY	**2,290**	**6,615**
TOTAL LIABILITIES AND EQUITY	**27,110**	**29,024**

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Statement of comprehensive income of the parent company

	2013	2012
Revenue	35,720	34,604
Cost of goods sold	-27,977	-25,062
Gross profit	**7,743**	**9,542**
Distribution costs	-5,195	-4,354
Administrative and general expenses	-2,849	-2,763
Other operating income	15	338
Other operating expenses	-1,874	0
Operating profit (loss)	**-2,160**	**2,763**
Impairment and reversal of investments and receivables from subsidiaries	-2,861	1,004
Interest expenses, net	-925	-821
Foreign exchange profit, net	0	277
Other financial revenue (expenses), net	0	46
Income tax	0	-26
Net profit (loss) for the financial year	**-5,946**	**3,243**
Total comprehensive income (loss)	**-5,946**	**3,243**

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Cash flow statement of the parent company

	2013	2012
Operating activities		
Operating profit (loss)	-2,160	2,763
Depreciation, amortisation and impairment of PPE and intangibles	299	348
Other non-monetary expenses	269	63
Changes in trade and other receivables	-593	1,751
Changes in trade and other payables	3,773	742
Changes in inventories	-1,531	-1,018
Interest paid	-930	-1,710
Net cash generated from (used in) operating activities	**-873**	**2,938**
Investing activities		
Acquisition of non-current assets and investment property, thereof	-307	-97
Proceeds from disposal of non-current assets	80	1
Investments in subsidiaries	0	-2,672
Acquisition of non-controlling interest	0	-91
Net cash used in investing activities	**-227**	**-2,859**
Financing activities		
Received borrowings	1,000	2,000
Repayments of borrowings	-2,280	-1,091
Change in bank overdraft	1,566	-382
Repayments of finance lease	-8	-47
Transactions with bonds	-6	0
Proceeds from bond issue	0	212
Net cash generated from financing activities	**272**	**692**
Total cash flows	**-828**	**772**
Cash and cash equivalents at beginning of year	**870**	**98**
Cash and cash equivalents at end of year	**42**	**870**
Change in cash and cash equivalents	**-828**	**772**

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Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2011	**25,056**	**89**	**1,380**	**-24,659**	**1,866**
Total comprehensive income	0	0	0	3,243	3,243
Allocation of retained earnings	0	-89	-651	740	0
Decrease of the nominal value of share	-17,897	0	1,182	16,715	0
Equity-settled share-based transactions	0	63	0	0	63
Equity instrument classification to liability	0	0	-250	0	-250
Sale of investment property: revaluation reserve	0	0	-479	479	0
Merger of subsidiary	0	0	0	1,693	1,693
Balance at 31 December 2012	**7,159**	**63**	**1,182**	**-1,789**	**6,615**
Book value of holdings under control or significant influence					-5,693
Value of holdings under control or significant influence, calculated under equity method					15,879
Adjusted unconsolidated equity at 31 December 2012					**10,186**
Total comprehensive loss	0	0	0	-5,946	-5,946
Equity-settled share-based transactions	0	125	0	0	125
Conversion of bonds to share capital	1,000	496	0	0	1,496
Balance at 31 December 2013	**8,159**	**684**	**1,182**	**-7,735**	**2,290**
Book value of holdings under control or significant influence					-5,673
Value of holdings under control or significant influence, calculated under equity method					17,181
Adjusted unconsolidated equity at 31 December 2013					**11,508**

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Baltika

We have audited the accompanying consolidated financial statements of AS Baltika and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Baltika and its subsidiaries as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu	Eva Jansen-Diener
Auditor's Certificate No. 325	Auditor's Certificate No. 501

26 March 2014

PROFIT ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net profit for the year ended at 31 December 2013 in the amount of 102 thousand euros to be allocated as following:

Retained earnings	102
Total	**102**

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY COUNCIL

The Management Board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2013.

The Supervisory Council of AS Baltika has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated financial statements, the Management Board's recommendation for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the annual shareholders meeting.

Meelis Milder
Chairman of the Management Board
26 March 2014

Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Council
26 March 2014

Maigi Pärnik-Pernik
Member of the Management Board
26 March 2014

Tiina Mõis
Member of the Supervisory Council
26 March 2014

Andrew J. D. Paterson
Member of the Management Board
26 March 2014

Reet Saks
Member of the Supervisory Council
26 March 2014

Maire Milder
Member of the Management Board
26 March 2014

Lauri Kustaa Äimä
Member of the Supervisory Council
26 March 2014

Kati Kusmin
Member of the Management Board
26 March 2014

Valdo Kalm
Member of the Supervisory Council
26 March 2014

AS BALTIKA SUPERVISORY COUNCIL

JAAKKO SAKARI MIKAEL SALMELIN
Chairman of Supervisory Council since 23 May 2012, member of the Supervisory Council since 21 June 2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 31 Dec 2013: 0

TIINA MÕIS
Member of the Supervisory Council since 03 May 2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Council of AS Nordecon International,
Member of the Supervisory Councils of AS LHV Pank and AS LHV Group,
Member of the Board of Estonian Chamber of Commerce and Industry,
Member of Estonian Accounting Standards Board.
Baltika shares held on 31 Dec 2013: 977,837 shares (on AS Genteel account)[1]

REET SAKS
Member of the Supervisory Council since 25 March1997
Attorney at Raidla Lejins & Norcous Law Office
Degree in Law, University of Tartu
Other assignments:
Member of the Management Board of MTÜ International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group.
Baltika shares held on 31 Dec 2013: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18 June 2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Board of KJK Invest Oy,
Member of the Board of Aurejärvi Varainhoito Oy,
Member of the Board of UAB Malsena Plius,
Member of the Board of Bostads AB Blåklinten Oy,
Member of the Supervisory Council of Salva Kindlustuse AS,
Member of the Supervisory Council of AS Premia Foods,
Member of the Supervisory Council of AS Premia Tallinna Külmhoone AS,
Member of the Supervisory Council of Managetrade OÜ,
Member of the Supervisory Council of Toode AS,
Vice-chairman of the Board of AAS BAN,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Management Board of KJK Fund II SICAV-SIF,
Chairman of the Supervisory Council of JSC Rigas Dzirnavnieks,
Chairman of the Board of Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 Dec 2013: 24 590 shares (on Kaima Capital Eesti OÜ account)[1]

VALDO KALM
Member of the Supervisory Council since 20 April 2012
Chairman of the Board of AS EMT
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Chairman of the Board of AS Eesti Telekom,
Chairman of the Board of AS EMT.
Baltika shares held on 31 Dec 2013: 0

[1]Members of the Supervisory Council of AS Baltika own shares through the companies AS Genteel and Kaima Capital Eesti OÜ (see Corporate governance report section "Supervisory Council").

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31 Dec 2013: 743,531 shares[1]

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika's shares 31 Dec 2013: 0

MAIRE MILDER
Member of the Management Board, Branding and Retail Developing Director
Member of the Board since 2000, in the Group since 1999
Degree in Biology and Geography, University of Tartu
Baltika shares held on 31 Dec 2013: 316,083 shares (thereof 30,000 shares on Maisan OÜ account)[1]

ANDREW J. D. PATERSON
Member of the Management Board, Commercial Director
Member of the Board since 2008, in the Group since 2003
Baltika shares held on 31 Dec 2013: 11,000 shares

KATI KUSMIN
Member of the Management Board, Sales and Marketing Director
Member of the Board since 2012, in the Group since 2012
Faculty of Economics, Tallinn University of Technology
Baltika shares 31 Dec 2013: 0

[1]The members of the Management Board of AS Baltika also own shares through the holding company OÜ BMIG (see Corporate governance report section "Management Board").

Revenues by EMTAK (the Estonian classification of economic activities)

Code	Definition	2013	2012
46421	Wholesale of clothing and footwear	35,008	33,483
46151	Brokerage of furniture, other products	389	0
46191	Wholesale of other products	151	54
70221	Management and support services	141	1,037
14131	Other sewing services	25	26
68201	Other rental revenue	6	4
Total		**35,720**	**34,604**

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[*] *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*