AS BALTIKA

Consolidated interim report for the third quarter and 9 months of 2011

Commercial name	AS Baltika
Commercial registry number	10144415
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E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2011 – 31 December 2011
Reporting period	1 January 2011 – 30 September 2011

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BRIEF DESCRIPTION OF BALTIKA GROUP

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating in the Baltic States, Central and Eastern Europe. The Baltika Group operates four retail concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. The Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The Group also sells its collections wholesale.

The shares of AS Baltika are listed on the Tallinn Stock Exchange which belongs to the NASDAQ OMX Group.

At 30 September 2011, the Group employed 1,413 people (31 December 2010: 1,419).

The parent company is located and has been registered at 24 Veerenni in Tallinn, Estonia.

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding at 30 Sep 2011	Holding at 31 Dec 2010
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[1]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[1]	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd[1]	Ukraine	Retail	100%	100%
OOO Kompania “Baltman RUS” [1]	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
AS Virulane	Estonia	Production	93,8%	93,8%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

[1]Interest through a subsidiary.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, 3 QUARTER 2011

On the whole, Baltika Group's third quarter results were in line with its plans. The beginning of the quarter saw strong growth in consumption that allowed the company to achieve sales that exceeded projections. However, from mid-August consumption began to cool notably due to warm weather that caused consumers to defer their purchases of the autumn collection and problems in Greece and the euro-zone that undermined the stability of the economic environment as well as consumer confidence. Besides the above, in the third quarter the company had to face a decline in the growth trends of its Russian and Ukrainian markets. Despite sales decrease in the second half of the quarter, the company succeeded in ending the last month of the quarter, September, with a positive net result.

The company continues to focus on improving efficiency and maintaining cost control. In the third quarter, sales per square metre grew by 8%; in local currencies the increase was even larger. At the same time, the costs of operating the store network decreased by 7% while costs per square metre remained stable compared with the previous year.

In the third quarter, the company continued optimising its retail network and streamlining internal processes, which involved enhancing the collection creation process, upgrading inventory and discount management, aiming marketing efforts more directly at the brands' target customers and improving customer service at the stores.

Third quarter gross margin improved, rising to 49.4% (the corresponding figure for 2010 was 48.7%). An improvement was also achieved in discount rates – the average third quarter discount rate was one percentage point lower than a year ago.

The company achieved sales comparable to those of the third quarter of 2010 on a 7% smaller sales area; at the same time gross profit grew by 2% and operating expenses (distribution and administrative expenses) decreased by 5%. In the third quarter, the Group's profit centres improved their performance considerably. Retail network profit increased more than two times year-over-year.

Operating loss for the third quarter of 2011 was 732 thousand euros compared with an operating loss of 1,743 thousand euros for the third quarter of 2010. The current year figure includes a foreign exchange loss of 37 thousand euros while in the comparative period the foreign exchange loss was 491 thousand euros.

Baltika Group ended the third quarter of 2011 with a net loss of 1,172 thousand euros against a net loss of 2,141 thousand euros for the third quarter of 2010.

Third quarter highlights:

- A public offering which ended on August 3rd, was over-subscribed by 1.1 times and was carried out in respect of entire issue, i.e. 4,300,000 shares with a total par value of 3,010,000 euros.
- The company opened five new stores: three in Russia, one in Ukraine and one in Latvia. Baltika Group closed Polish market with four shops and also one shop in Latvia and Estonia.
- To improve management efficiency and product development and better utilise sales resources, a new and more effective brand and sales management structure was implemented in the third quarter of 2011. Baltika will continue to operate with four brands but will centralise a number of activities that used to be brand-based and will streamline its former matrix management structure by reducing management levels and specifying responsibilities.

Although third quarter performance corresponded to plan, the company has revised its anticipated fourth quarter and full-year results. In the third quarter the instability of the economic environment increased and consumer confidence decreased. Therefore, the company has lowered its fourth quarter growth expectations and will revise sales plans for the next year.

REVENUE

Baltika Group ended the first nine months of 2011 with revenue of 37,924 thousand euros, 2% up on nine months of 2010. Third quarter revenue was 13,511 thousand euros, remaining stable compared with a year ago.

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Revenue by activity

	Q3 2011	Q3 2010	+/-	9M 2011	9M 2010	+/-
Retail	12,444	12,401	0%	35,291	34,314	3%
Wholesale	933	943	-1%	2,199	2,433	-10%
Rent	125	99	26%	350	271	29%
Sewing services	0	37	-100%	60	72	-17%
Other	9	6	50%	24	34	-29%
Total	**13,511**	**13,486**	0%	**37,924**	**37,124**	2%

Retail

Retail revenues for the first nine months of 2011 totalled 35,291 thousand euros, a 3% increase year-over-year. In the first nine months of 2011, sales grew by 16% in Latvia, 13% in Estonia and 1% in Russia.

Third quarter retail revenue amounted to 12,444 thousand euros, remaining at the same level as in the previous year. In the third quarter, sales grew in Latvia (+15%) and Estonia (+11%). Sales contraction in Lithuania, Ukraine, Russia and Poland is attributable to a substantial decrease in sales areas and in Ukraine also the adverse impact of movements in foreign exchange rates. In local currency, third quarter Ukrainian sales grew by 2% year-over-year while in euros the figure decreased by 8%.

Retail sales by market

EUR thousands	Q3 2011	Q3 2010	+/-	Share	9M 2011	9M 2010	+/-	Share
Estonia	3,670	3,295	11%	29%	10,126	8,984	13%	26%
Russia	2,576	2,733	-6%	21%	7,657	7,555	1%	24%
Lithuania	2,488	2,539	-2%	20%	6,940	7,071	-2%	19%
Latvia	1,888	1,646	15%	15%	5,167	4,454	16%	14%
Ukraine	1,689	1,829	-8%	14%	4,663	5,186	-10%	14%
Poland	133	359	-63%	1%	738	1,064	-31%	3%
Total	**12,444**	**12,401**	**0%**	**100%**	**35,291**	**34,314**	**3%**	**100%**

<u>Stores and sales area</u>

As at the end of the third quarter of 2011, Baltika had 115 stores in five countries with a total sales area of 23,165 square metres, which is 8 stores and 1,629 square metres less than at the end of the third quarter of 2010. In the first nine months of 2011 the Group opened six stores: three in Russia, two in Ukraine and one in Latvia. At the same time the Group closed eleven stores: four in Poland, two in both Lithuania and Russia and one in Ukraine, Estonia and Latvia each.

Stores by market

	30 Sep 2011	30 Sep 2010	Change in period-end sales area
Estonia	29	31	-3%
Lithuania	29	32	-7%
Russia	24	22	1%
Ukraine	18	18	1%
Latvia	15	15	3%
Poland	0	5	-100%
Total stores	**115**	**123**	
Total sales area, sqm	**23,165**	**24,794**	**-7%**

The numbers of stores and sales area have decreased on account of restructuring undertaken in the retail system with a view to improving operating efficiency. The company continues to monitor underperforming stores and will improve their results by various activities. However, to date the store network has in all material respects been streamlined and no major closures are planned.

The efficiency of the retail system is measured in sales per square metre. In the first nine months, the indicator improved in all markets. The strongest growth per square metre was achieved in the Lithuanian market that was hit by the downturn after the other Baltic markets and also regained growth later than the others.

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Estonian and Latvian markets are posting stable growth. Ukrainian and Russian third quarter growth figures were negative at -3% and -2% respectively. The decrease in sales efficiency is attributable to unfavourable movements in foreign exchange rates. In local currency, respective third quarter growth rates were 7% and 2%.

Sales efficiency by market

	Q3 2011	Q3 2010	+/-	9M 2011	9M 2010	+/-
Estonia	214	193	11%	196	175	12%
Russia*	182	186	-2%	176	169	4%
Lithuania	149	134	11%	138	118	17%
Latvia	189	168	12%	174	153	13%
Ukraine*	166	172	-3%	156	148	6%
Poland	98	99	-2%	99	98	1%
Total	**179**	**166**	**8%**	**166**	**149**	**12%**

*In local currency, third quarter sales efficiency grew by 2% in Russia and 7% in Ukraine while the respective figures for the first nine months were 6% and 13%.

Brands

In terms of brands, the largest share of Baltika's retail revenue is generated by Monton whose retail sales accounted for 53% of the Group's retail revenue for the first nine months of 2011. Mosaic contributed 31% and Baltman 8% and Ivo Nikkolo 7%.

Retail revenue by brand

	Q3 2011	Q3 2010	+/-	Share	9M 2011	9M 2010	+/-	Share
Monton	6,595	6,510	1%	53%	18,766	17,957	5%	53%
Mosaic	3,867	4,116	-6%	31%	11,107	11,552	-4%	31%
Baltman	963	779	24%	8%	2,769	2,376	17%	8%
Ivo Nikkolo	1,003	988	2%	8%	2,617	2,374	10%	7%
Other	16	8	100%	0%	32	55	-42%	0%
Total	**12,444**	**12,401**	**0%**	**100%**	**35,291**	**34,314**	**3%**	**100%**

Baltman continues to post strong growth figures: its third quarter sales grew by 24%. Baltman's largest, 78% sales growth was achieved in Latvia. Sales of Ivo Nikkolo and Monton grew by 2% and 1% respectively. Third quarter sales of Mosaic dropped 6% year-over-year, primarily on account of closure of stores, i.e. a decrease in sales area.

All brands improved their efficiency indicators compared with the first nine months of the previous year, which may be attributed to stabilisation in the economic environment and consumer demand as well as effective streamlining of the retail system.

Sales efficiency and change in average sales area by brand

	Q3 2011	Q3 2010	+/-	Change in average area	9M 2011	9M2010	+/-	Change in average area
Monton	169	152	11%	-9%	155	136	14%	-9%
Mosaic	164	168	-3%	-3%	156	152	2%	-6%
Baltman	274	218	26%	-2%	267	203	31%	-11%
Ivo Nikkolo	296	258	15%	-11%	258	214	21%	-9%
Total retail	**179**	**166**	**8%**	**-7%**	**166**	**149**	**12%**	**-8%**

Monton, which is the largest brand in terms of revenue, improved its third quarter sales efficiency by 11% (on a year-over-year basis) mostly thanks to a successful collection that was exceptionally well received by the customers.

The second-largest brand, Mosaic, posted a 3% decrease in third quarter sales efficiency because the spending of its target customers has recovered more slowly than expected. In addition, its third quarter results were influenced by a significant weakening in sales that is characteristic of the period when school starts, holidays end and people return to work. In the third quarter of 2010, Mosaic's sales also included sales of childrenswear whose creation was discontinued at the beginning of this year.

In the third quarter, Baltman's sales per square metre grew by 26% year-over-year, reflecting the success of the collection, better planning and the economic recovery of customers purchasing men's business wear in the Group's markets (particularly Estonia and Latvia).

For Ivo Nikkolo the first nine months of the year were successful. In the third quarter, sales efficiency improved by 15%, mostly because the brand succeeded in realizing the sales potential of its business and outerwear at the beginning of the season and closed inefficient stores at the beginning of the year.

Wholesale

Baltika's wholesale revenue for the first nine months of 2011 amounted to 2,199 thousand euros, a 10% decrease year-over-year. At the same time, wholesale revenue from comparable customers grew by 9%. In the first nine months of last year, 17% of the Group's wholesale revenue was generated by the products of AS Virulane; to date the brands of AS Virulane have been divested.

The largest sales growth was achieved in Western and Eastern European markets in connection with an increase in number of Peek & Cloppenburg department stores that carry the Group's products. To date, Mosaic is represented at 40 Peek & Cloppenburg department stores in a total of ten markets. Wholesale to Stockmann has increased in connection with the opening of new Stockmann stores in the Russian market (particularly the flagship store in St Petersburg).

FINANCIAL PERFORMANCE

In the third quarter, distribution expenses decreased by 4% to 6,720 thousand euros. The retail system's store operating expenses were almost 7% smaller than in the previous year and costs per square metre decreased by around 0.5%. The positive trend in cost development results from the restructuring of the store network, particularly the closure of Europeysky, the Group's flagship store in Moscow, at the beginning of April. Comparable market and store operating expenses have grown somewhat because in the previous year several lease contracts included temporary crisis-induced price concessions which to date have expired. Economic recovery in Baltika's target markets has increased pressure on lease and labour expenses but the Group considers cost control a priority and continues to monitor its expenses.

Administrative and general expenses for the third quarter have decreased compared with the third quarter of 2010 mostly because of shrinkage in consultancy and salary expenses. Other operating income and other operating expenses for the third quarter were influenced by unfavourable movements in foreign exchange rates. Other operating income and other operating expenses for the third quarter of 2011 include a foreign exchange loss of 37 thousand euros whereas in the same period of 2010 the items included a foreign exchange loss of 491 thousand euros.

The Group's gross profit for the third quarter of 2011 was 6,677 thousand euros, a 2% increase year-over-year on a sales area that was 7% smaller on average. The vigorous growth may be attributed to a higher gross margin. The Group's third quarter gross margin was 49.4% (Q3 2010: 48.7%).

Third quarter operating loss was 732 thousand euros compared with 1,743 thousand euros for the third quarter of 2010.

Operating loss for the first nine months was 2,926 thousand euros compared with 4,258 thousand euros for the first nine months of 2010. The figure for the previous year was improved by the divestment in the first quarter of the MasCara and Herold brands of AS Virulane and the sale of some items of property, plant and equipment that yielded 256 thousand euros. In addition, in the first nine months of 2010 movements in foreign exchange rates had a positive impact and Baltika Group earned a foreign exchange gain of 118 thousand euros in contrast to a foreign exchange loss of 319 thousand euros incurred in the first nine months of 2011.

The Group's finance costs for the third quarter of 2011 were 411 thousand euros, a 16% increase year-over-year. The largest finance cost item was interest expense. At the end of the third quarter of 2011, the weighted average loan interest rate of the Group's loan portfolio was 6.24% (Q3 2010: 5.77%).

Baltika Group ended the third quarter of 2011 with a net loss of 1,172 thousand euros. Net loss for the third quarter of 2010 was 2,141 thousand euros.

FINANCIAL POSITION

At 30 September 2011, Baltika Group had total assets of 40,152 thousand euros, a 2% increase compared with 31 December 2010.

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The Group's trade and other receivables decreased compared with the previous year-end, totalling 3,102 thousand euros at the end of the quarter. Trade receivables decreased by 2% to 1,226 thousand euros. The net amount of trade receivables includes the allowance for doubtful receivables of 22 thousand euros.

At the end of the third quarter, inventories totalled 13,678 thousand euros, an increase of 2,874 thousand euros, i.e. 27% compared with the previous year-end. One reason for the increase in inventories is weaker sales at the end of August and in September. On the other hand, some of the growth has been carefully scheduled and planned – the company has purchased most of the goods required for the winter season. Last year, purchase of fourth quarter goods was delayed which is why in certain clothing segments the sales potential was not fully realized.

Trade payables as at the end of the third quarter totalled 9,950 thousand euros, an increase of 2,969 thousand euros on the year-end figure. The rise is attributable to growth in inventory purchases.

At the end of the third quarter, the Group's net debt (interest-bearing liabilities less cash and bank balances) was 18,414 thousand euros. The net debt to equity ratio was 164%. The Group's equity as at 30 September 2011 amounted to 11,250 thousand euros.

AS Baltika draws the attention of the investors to the issue that despite of the changes made in the economic activities, the company's net assets are below half of the share capital. In case the fourth quarter results do not meet expectations, the Board of AS Baltika will implement needed measures. The company will inform investors of the action plan approved by the Supervisory Council through stock exchange system.

INVESTMENT

Baltika Group investments in the third quarter amounted to 214 thousand euros. Most of the investments were made in retail system.

PEOPLE

At 30 September 2011, Baltika Group employed a total of 1,413 people (31 December 2010: 1,419): 795 (799) in the retail system, 442 (442) in manufacturing and 176 (178) at the head office and logistics centre. The period's average number of staff was 1,413 (9M 2010: 1,560).

Employee remuneration expenses for the first nine months of 2011 totalled 7,892 thousand euros (9M 2010: 7,976 thousand euros). The remuneration of the members of the supervisory council and management board totalled 233 thousand euros (9M 2010: 281 thousand euros).

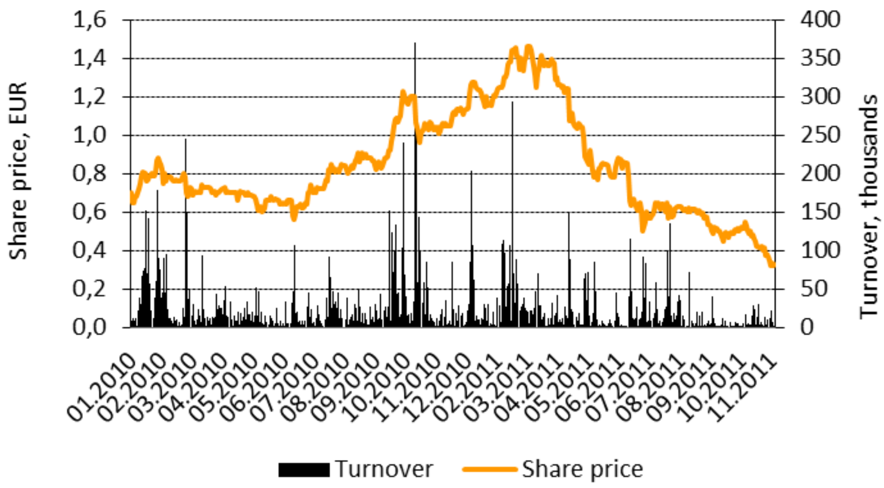
KEY FIGURES OF THE GROUP (9 MONTHS 2011)

	30 Sep 2011	**30 Sep 2010**	+/-
Revenue (EUR thousand)	37,924	37,124	2.2%
Retail sales (EUR thousand)	35,291	34,314	2.8%
Share of retail sales in revenue	93%	92%	
Number of stores	115	123	-6.5%
Sales area (sqm)	23,165	24,794	-6.6%
Number of employees (end of period)	1,413	1,456	-3.0%
Gross margin	52.4%	50.4%	
Operating margin	-7.7%	-11.5%	
EBT margin	-10.4%	-13.4%	
Net margin	-10.5%	-13.6%	
Current ratio	1.4	1.0	42.1%
Inventory turnover	4.31	4.48	-4.0%
Debt to equity ratio	167.5%	148.9%	
Return on equity	-48.0%	-61.7%	
Return on assets	-13.5%	-16.5%	

Definitions of key ratios

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
Inventory turnover = Revenue/Average inventories*
Debt to equity ratio = Interest-bearing liabilities/Equity
Return on equity (ROE) = Net profit (attributable to parent)/Average equity*
Return on assets (ROA) = Net profit (attributable to parent)/Average total assets*
*Based on 12-month average

SHARE PRICE AND TURNOVER



MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The management board confirms that the management report presents a true and fair view of all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements; includes the description of major risks and doubts influencing the remainder of the financial year; and provides an overview of all significant transactions with related parties.

Meelis Milder
Chairman of the management board
28 November 2011

Maigi Pärnik-Pernik
Member of the management board
28 November 2011

Boriss Loifenfeld
Member of the management board
28 November 2011

Maire Milder
Member of the management board
28 November 2011

Andrew Paterson
Member of the management board
28 November 2011

INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The management board confirms the correctness and completeness of AS Baltika's consolidated interim report for the third quarter and nine months of 2011 as presented on pages 12-30.

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 give a true and fair view of the assets and liabilities of the Group comprising of the parent company and other Group entities as well as its financial position, its results of the operations and the cash flows of the Group; and its cash flows;

3. all group companies are going concerns.

Meelis Milder
Chairman of the management board
28 November 2011

Maigi Pärnik-Pernik
Member of the management board
28 November 2011

Boriss Loifenfeld
Member of the management board
28 November 2011

Maire Milder
Member of the management board
28 November 2011

Andrew Paterson
Member of the management board
28 November 2011

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 Sep 2011	31 Dec 2011
ASSETS			
Current assets			
Cash and bank	3	434	823
Trade and other receivables	4	3,102	3,119
Inventories	5,13	13,678	10,804
Total current assets		**17,214**	**14,746**
Non-current assets			
Deferred income tax asset		838	838
Other non-current assets	6	778	780
Investment property	7	7,069	7,069
Property, plant and equipment	8	10,506	12,121
Intangible assets	9	3,747	3,898
Total non-current assets		**22,938**	**24,706**
TOTAL ASSETS		**40,152**	**39,452**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	10	2,451	2,125
Trade and other payables	11	9,950	6,981
Total current liabilities		**12,401**	**9,106**
Non-current liabilities			
Borrowings	10	16,497	17,953
Other liabilities	11	4	37
Total non-current liabilities		**16,501**	**17,990**
TOTAL LIABILITIES		**28,902**	**27,096**
EQUITY			
Share capital at par value	12	25,056	20,129
Share premium		56	1,332
Reserves	12	2,244	2,784
Retained earnings		-11,592	-4,961
Net loss for the period		-3,980	-6,344
Currency translation differences		-696	-746
Total equity attributable to equity holders of the parent		**11,088**	**12,194**
Non-controlling interest		162	162
TOTAL EQUITY		**11,250**	**12,356**
TOTAL LIABILITIES AND EQUITY		**40,152**	**39,452**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q3 2011	Q3 2010	9M 2011	9M 2010
Revenue	13,14	13,511	13,486	37,924	37,124
Cost of goods sold	15	-6,834	-6,915	-18,041	-18,401
Gross profit		**6,677**	**6,571**	**19,883**	**18,722**
Distribution costs	16	-6,720	-6,970	-20,283	-21,021
Administrative and general expenses	17	-628	-758	-2,122	-2,099
Other operating income	18	20	4	23	398
Other operating expenses	19	-81	-590	-427	-258
Operating loss	13	**-732**	**-1,743**	**-2,926**	**-4,258**
Finance income	20	-14	0	1	161
Finance costs	20	-411	-354	-1,030	-881
Loss before income tax		**-1,157**	**-2,097**	**-3,955**	**-4,978**
Income tax expense		-15	-44	-25	-75
Net loss		**-1,172**	**-2,141**	**-3,980**	**-5,053**
Loss attributable to:					
Equity holders of the parent company		-1,172	-2,140	-3,980	-5,065
Non-controlling interest		0	-1	0	12
Other comprehensive income (loss)					
Currency translation differences		-156	-54	50	-176
Total comprehensive income (loss)		**-1,328**	**-2,195**	**-3,930**	**-5,229**
Comprehensive income (loss) attributable to:					
Equity holders of the parent company		-1,328	-2,194	-3,930	-5,241
Non-controlling interest		0	-1	0	12
Basic earnings per share, EUR	21	-0.03	-0.08	-0.13	-0.23
Diluted earnings per share, EUR	21	-0.03	-0.08	-0.13	-0.23

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CONSOLIDATED CASH FLOW STATEMENT

	Note	9M 2011	9M 2010
Operating activities			
Operating profit (loss)		-2,926	-4,258
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	8,9	1,881	2,293
Loss (gain) from disposal of PPE and investment property		60	73
Other non-monetary expenses		195	-327
Changes in working capital:			
Change in trade and other receivables	4	-199	-1,267
Change in inventories	5	-2,866	873
Change in trade and other payables	11	2,906	-2,348
Interest paid		-938	-891
Income tax paid		-144	-54
Net cash generated from operating activities		**-2,031**	**-5,906**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	8,9	-124	-220
Under the finance lease terms		5	43
Proceeds from disposal of property, plant and equipment		2	1,572
Interest received		0	1
Net cash used in investing activities		**-117**	**1,395**
Financing activities			
Received borrowings	10	1,193	672
Repayments of borrowings	10	-2,044	-2,518
Change in bank overdraft	10	-89	-41
Repayments of finance lease and other liabilities		-168	-191
Receipts from share issue		3,010	6,787
Dividend paid		0	-0.2
Dividend paid for preference shares		-49	-242
Bonds transactions		-1	0
Net cash generated from financing activities		**1,852**	**4,466**
Effect of exchange gains (losses) on cash and cash equivalents		-93	160
Total cash flows		**-389**	**116**
Cash and cash equivalents at the beginning of the period	3	**823**	**385**
Cash and cash equivalents at the end of the period	3	**434**	**501**
Change in cash and cash equivalents		**-389**	**116**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent							
	Share capital	**Share premium**	**Reserves**	**Retained earnings**	**Currency translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 Dec 2009	**14,473**	**67**	**2,784**	**-4,961**	**-601**	**11,762**	**162**	**11,924**
Profit (loss) for the period	0	0	0	-5,065	0	-5,065	12	-5,053
Other comprehensive income (loss)	0	0	0	0	-176	-176	0	-176
Total comprehensive income (loss)	0	0	0	-5,065	-176	-5,241	12	-5,229
Equity-settled share-based transactions	0	68	0	0	0	68	0	68
Increase of share capital	5,656	1,131	0	0	0	6,787	0	6,787
Balance at 30 Sep 2010	**20,129**	**1,266**	**2,784**	**-10,026**	**-777**	**13,376**	**174**	**13,550**
Balance at 31 Dec 2010	**20,129**	**1,332**	**2,784**	**-11,305**	**-746**	**12,194**	**162**	**12,356**
Profit (loss) for the period	0	0	0	-3,980	0	-3,980	0	-3,980
Other comprehensive income (loss)	0	0	0	0	50	50	0	50
Total comprehensive income (loss)	0	0	0	-3,980	50	-3,930	0	-3,930
Equity-settled share-based transactions	0	101	0	0	0	101	0	101
Increase of share capital	4,927	-1,377	-540	-287	0	2,723	0	2,723
Balance at 30 Sep 2011	**25,056**	**56**	**2,244**	**-15,572**	**-696**	**11,088**	**162**	**11,250**

NOTES TO CONSOLIDATED INTERIM REPORT

NOTE 1 Accounting policies and accounting methods used in the preparation of the interim report

The Baltika Group, with in the Republic of Estonia registered parent company AS Baltika, is an international fashion retailer operating four concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. AS Baltika's shares are listed on the Tallinn Stock Exchange. One of the largest shareholder of AS Baltika OÜ BMIG is controlled by the members of the management board of the company.

The Group's condensed consolidated interim report for the nine months ended 30 September 2011 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's latest consolidated annual financial statements for the year ended 31 December 2010, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2010. New and revised standards and interpretations effective from 1 January 2011 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

All information in the financial statements is presented in thousands of euros, unless otherwise stated.

This interim report has not been audited or otherwise reviewed by auditors, and includes only Group's consolidated reports and does not include all of the information required for full annual financial statements.

NOTE 2 Financial risks

In its daily activities, the Group is exposed to different types of risk management, which is an important and integral part of the business activities of the company. The company'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.

The basis for risk management at 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 supervises the management's risk management activities.

Market risk

Foreign exchange risk

Sales in foreign currencies constitute 66% of the revenues of the Group and are denominated in LTL (Lithuanian lit), LVL (Latvian lat), UAH (Ukrainian hryvnia), PLN (Polish zloty), RUR (Russian rouble), for the foreign subsidiaries of the Group. The majority of raw materials used in production is acquired from countries located outside of European Union. The major foreign currency for purchases is USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled only 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 in those countries where AS Baltika has subsidiaries. The changes in average foreign currency rates against euro[i] in the reporting period were the following: Russian rouble –1.88% (2010: +10.25%), Ukrainian hryvnia –7.33% (2010: +4.60%), Polish zloty -0.53% (2010: +8.45%) and Latvian lat +0.09% (2010: -0.51%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was -7.07% (2010: +3.67%).

Foreign exchange risk arises from cash and bank (Note 3), trade receivables (Note 4) and trade payables (Note 11).

[i]Until 31 December 2010, the changes in average foreign currency rates were reported against Estonian kroon based on Estonian Bank exchange rates.

The Group's non-current borrowings carrying floating interest rate were denominated in euros, therefore no currency risk is assumed.

No instruments were used to hedge foreign currency risks in 2011 and 2010. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities measured in the same currency. Additionally the Group uses the option 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, 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 non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. The exposure to the fair value interest rate risk of the Group's borrowings is insignificant according to the management's estimate as the borrowings with fixed interest rate have short maturities, expiring within a year, or have no term (overdraft). Interest rate risk is primarily caused by the potential fluctuations of Euribor and the changing of the average interest rates of banks.

All non-current borrowings at 30 September 2011 and 31 December 2010 were subject to a floating interest rate based on Euribor, which is fixed every three or six months. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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 with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Cash and cash equivalents

For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted for operations in the Baltic and Central European region as long-term counterparties. For Eastern Europe the "B" rating is considered acceptable. The Group has chosen banks with "A" rating to be the main partners for managing the cash and cash equivalents and financing the Group's operations in Estonia and overseas.

Trade receivables

The most significant credit risk concentration to the Group arises from the wholesale activities in Eastern Europe. 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, no collaterals to secure the trade receivables are required from counterparties but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

At 30 September 2011 the maximum exposure to credit risk from trade receivables (Note 4) amounted to 1,226 thousand euros (31 December 2010: 1,253 thousand euros) on a net basis after the allowances. The trade receivables from Eastern European clients amounted to 710 thousand euros (31 December 2010: 883 thousand euros), including balances with the Eastern European wholesale partners of 681 thousand euros (31 December 2010: 850 thousand euros) and balances with retail customers for bank card payments of 29 thousand euros (31 December 2010: 33 thousand euros).

Trade receivables past due six months and more were partially impaired thus the difference between the carrying value and recoverable amount was recognised as an impairment loss (Note 4).

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. Credit risks arising from the Group's seasonal production and sales cycle are temporary.

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. The volume of financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. 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.

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To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, monitoring of 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.

Financial liabilities by maturity at 30 September 2011

		Undiscounted cash flows[1]		
	Carrying amount	**1-3 months[2]**	**1-5 years**	**Total**
Borrowings (Note 10)[3]	18,654	1,137	20,336	21,473
Finance lease liabilities (Note 10)	194	52	154	206
Trade payables (Note 11)	7,515	7,515	0	7,515
Other financial liabilities (Note 10,11)[4]	26	26	0	26
Total	**26,389**	**8,730**	**20,490**	**29,220**

Financial liabilities by maturity at 31 December 2010

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Bank borrowings (Note 10)[3]	19,444	2,798	20,149	22,947
Finance lease liabilities (Note 10)	377	251	152	403
Trade payables (Note 11)	4,355	4,355	0	4,355
Other financial liabilities (Note 10,11)[4]	300	300	0	300
Total	**24,476**	**7,704**	**20,301**	**28,005**

[1]For interest bearing borrowings carrying floating interest rate based on Euribor, the spot rate has been used.
[2]Financial liabilities due in current financial year.
[3]Overdraft facilities are shown under bank borrowings payable within 1-5 years in the amount of maximum exposure available for the Group.
[4]Other financial liabilities include accrued expenses in amount of 26 thousand euros (31 December 2010: 105 thousand euros) and dividends liabilities of preference shares in amount of 195 thousand euros at 31 December 2010.

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 the one hand and adequately consider local conditions on the other.

As 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.

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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.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a 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.

Consistent with industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated balance sheet and net debt. The Group's strategy is to achieve the gearing ratio within the range of 30% to 35% but due to the global economical crisis it was not achieved in 2011 and 2010. The gearing ratio was influenced by the earned comprehensive loss.

Gearing ratios of the Group

	30 Sep 2011	**31 Dec 2010**
Total borrowings (Note 10)	18,848	19,821
Cash and bank (Note 3)	-434	-823
Net debt	18,414	18,998
Total equity	11,250	12,356
Total capital	29,664	31,354
Gearing ratio	**62%**	**61%**

Fair value

The Group estimates that the fair values of the assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated balance sheet at 30 September 2011 and 31 December 2010. 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. Therefore, management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The carrying amount less an impairment provision of trade receivables and payables is assumed to approximate their fair values. 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.

NOTE 3 Cash and bank

	30 Sep 2011	**31 Dec 2010**
Cash in hand	218	301
Cash at bank	216	452
Short-term deposits	0	70
Total	**434**	**823**

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Cash and bank by currency

	30 Sep 2011	31 Dec 2010
RUB (Russian rouble)	174	114
EUR (euro)	97	97
UAH (Ukrainian hryvnia)	75	164
LTL (Lithuanian lit)	67	94
LVL (Latvian lat)	16	53
PLN (Polish zloty)	5	146
EEK (Estonian kroon)	0	155
Total	**434**	**823**

NOTE 4 Trade and other receivables

	30 Sep 2011	31 Dec 2010
Trade receivables, net	1,226	1,253
Other prepaid expenses	979	888
Tax prepayments and tax reclaims, thereof	785	684
Value added tax	758	662
Prepaid income tax	4	0
Other taxes	23	22
Other current receivables	112	294
Total	**3,102**	**3,119**

Trade receivables

	30 Sep 2011	31 Dec 2010
Trade receivables, gross	1,248	1,287
Allowance for impairment of trade receivables	-22	-34
Trade receivables, net	**1,226**	**1,253**

Trade receivables (net) by due date

	30 Sep 2011	31 Dec 2010
Not due	1,144	1,206
Up to 1 month past due	24	41
1-3 months past due	29	2
3-6 months past due	17	0
Over 6 months past due	12	4
Total	**1,226**	**1,253**

Trade receivables (net) by denominating currency

	30 Sep 2011	31 Dec 2010
EUR (euro)	1,126	901
LVL (Latvian lat)	44	57
RUB (Russian rouble)	29	28
LTL (Lithuanian lit)	27	36
PLN (Polish zloty)	0	6
EEK (Estonian kroon)	0	220
UAH (Ukrainian hryvnia)	0	5
Total	**1,226**	**1,253**

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NOTE 5 Inventories

	30 Sep 2011	31 Dec 2010
Fabrics and accessories	1,517	1,344
Allowance for impairment of fabrics and accessories	-13	-13
Work-in-progress	66	72
Finished goods and goods purchased for resale	11,880	9,409
Allowance for impairment of finished goods and goods purchased for resale	0	-320
Prepayments to suppliers	228	312
Total	**13,678**	**10,804**

NOTE 6 Other non-current assets

	30 Sep 2011	31 Dec 2010
Non-current lease prepayments	388	390
Other long-term receivables	390	390
Total	**778**	**780**

NOTE 7 Investment property

	2011	2010
Balance at 1 January	**7,069**	**6,602**
Balance at 30 September	**7,069**	**6,602**

Investment property consists of 4,500 square metres of land and former production building that was renovated and turned into office building and old office building, located at 24 Veerenni in Tallinn, Estonia. Real estate properties that are occupied by Group are recorded under fixed assets.

NOTE 8 Property, plant and equipment

	Land and construction rights	Buildings and structures	Machinery and equipment	Other fixtures	Construction in progress	Prepayments	Total
At 31 Dec 2009							
Acquisition cost	**11**	**14,524**	**6,375**	**7,728**	**7**	**11**	**28,656**
Accumulated depreciation	0	-2,784	-4,494	-4,559	0	0	-11,837
Net book amount	**11**	**11,740**	**1,881**	**3,169**	**7**	**11**	**16,819**
Additions	0	20	15	75	7	0	117
Disposals	-11	-1,485	-64	-70	0	0	-1,630
Depreciation	0	-788	-379	-881	0	0	-2,048
Currency translation differences[1]	0	52	25	77	1	0	155
At 30 Sep 2010							
Acquisition cost	**0**	**12,706**	**5,861**	**7,334**	**15**	**11**	**25,927**
Accumulated depreciation	0	-3,167	-4,383	-4,964	0	0	-12,514
Net book amount	**0**	**9,539**	**1,478**	**2,370**	**15**	**11**	**13,413**

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At 31 Dec 2010							
Acquisition cost	**0**	**11,607**	**5,861**	**6,979**	**19**	**13**	**24,479**
Accumulated depreciation	0	-3,005	-4,445	-4,908	0	0	-12,358
Net book amount	**0**	**8,602**	**1,416**	**2,071**	**19**	**13**	**12,121**
Additions	0	46	28	32	0	0	106
Disposals	0	-1	-15	-29	-5	-11	-61
Reclassifications to inventories	0	0	-10	-3	0	0	-13
Reclassification	0	10	2	-1	-10	-1	0
Depreciation	0	-577	-334	-703	0	0	-1,614
Currency translation differences[1]	0	-8	-13	-16	0	-1	-38
At 30 Sep 2011							
Acquisition cost	**0**	**11,472**	**5,752**	**6,707**	**4**	**0**	**23,935**
Accumulated depreciation	0	-3,400	-4,678	-5,351	0	0	-13,429
Net book amount	**0**	**8,072**	**1,074**	**1,356**	**4**	**0**	**10,506**

[1]Amount of currency translation differences comes from conversion of acquisition cost of assets, accumulated depreciation and movements of assets during the reporting period.

NOTE 9 Intangible assets

	Licenses, software and other	**Trade-marks**	**Prepayments**	**Goodwill**	**Total**
At 31 Dec 2009					
Acquisition cost	**2,700**	**643**	**0**	**1,895**	**5,238**
Accumulated depreciation	-1,160	-107	0	0	-1,267
Net book amount	**1,540**	**536**	**0**	**1,895**	**3,971**
Additions	93	0	10	60	163
Disposals	-21	0	0	0	-21
Amortisation	-220	-24	0	0	-244
Currency translation differences[1]	10	0	0	61	71
At 30 Sep 2010					
Acquisition cost	**2,763**	**643**	**10**	**2,016**	**5,432**
Accumulated depreciation	-1,363	-131	0	0	-1,494
Net book amount	**1,400**	**512**	**10**	**2,016**	**3,938**

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At 31 December 2010					
Acquisition cost	**2,774**	**643**	**23**	**2,048**	**5,488**
Accumulated depreciation	-1,451	-139	0	0	-1,590
Net book amount	**1,323**	**504**	**23**	**2,048**	**3,898**
Additions	18	0	0	194	212
Disposals	-1	0	0	0	-1
Reclassification	3	0	-3	0	0
Depreciation	-243	-24	0	0	-267
Currency translation differences[1]	-6	0	0	-89	-95
At 30 September 2011					
Acquisition cost	**2,821**	**643**	**20**	**2,153**	**5,637**
Accumulated depreciation	-1,727	-163	0	0	-1,890
Net book amount	**1,094**	**480**	**20**	**2,153**	**3,747**

[1]Amount of currency translation differences comes from conversion of acquisition cost of assets, accumulated depreciation and movements of assets during the reporting period.

NOTE 10 Borrowings

	30 Sep 2011	**31 Dec 2010**
Current borrowings		
Current portion of non-current bank loans	2,185	1,697
Current bank loans	0	0
Current finance lease liabilities	105	233
Other current loans	150	0
Liability component of preference shares	11	195
Total	**2,451**	**2,125**
Non-current borrowings		
Non-current bank loans	16,319	17,747
Non-current finance lease liabilities	89	144
Convertible bonds and other non-current liabilities	89	62
Total	**16,497**	**17,953**
Total borrowings	**18,948**	**20,078**

During the reporting period, the Group made loan repayments in the amount of 2,044 thousand euros (2010: 2,518 thousand euros). Loan interest expense of the reporting period amounted to 935 thousand euros (2010: 881 thousand euros).

Loans and the liability component of the preference shares of the Group at 30 September 2011

	Carrying amount	**Average risk premium**
Borrowings at floating interest rate (based on 6-month Euribor)	18,504	4.60%
Borrowings at fixed interest rate	150	10.00%
Total	**18,654**	

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Bank loans and the liability component of the preference shares of the Group at 31 December 2010

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	19,444	4.57%
Liability component of preference shares	195	10.00%
Total	**19,639**	

NOTE 11 Trade and other payables

	30 Sep 2011	31 Dec 2010
Current liabilities		
Trade payables	7,515	4,355
Tax liabilities, thereof	1,346	1,610
Personal income tax	185	158
Social security taxes	432	429
Value added tax	660	840
Corporate income tax liability	2	117
Other taxes	67	66
Payables to employees[1]	988	767
Other accrued expenses[2]	26	105
Customer prepayments	17	40
Other current payables	58	104
Total	**9,950**	**6,981**
Non-current liabilities		
Other liabilities[3]	4	37

[1]Payables to employees consist of accrued wages and salaries and vacation accrual.
[2]Accrued expenses consist of dividend payable in the amount of 1 thousand euros (31 December 2010: 1 thousand euros), interest payable in the amount of 21 thousand euros (31 December 2010: 28 thousand euros) and other accrued expenses in the amount of 4 thousand euros (31 December 2010:76 thousand euros).
[3]Other non-current liabilities consist of deferred income.

Trade payables by denominating currency

	30 Sep 2011	31 Dec 2010
EUR (euro)	4,583	933
USD (US dollar)	2,647	1,705
RUB (Russian rouble)	38	125
PLN (Polish zloty)	107	164
LVL (Latvian lat)	51	44
LTL (Lithuanian lit)	46	82
EEK (Estonian kroon)	0	1,280
Other currencies	43	22
Total	**7,515**	**4,355**

NOTE 12 Equity

Share capital

	30 Sep 2011	31 Dec 2010
Share capital	25,056	20,129
Number of shares	35,794,850	31,494,850
Nominal value of shares, EUR	0.70	0.64
Statutory reserve	652	1,192
Revaluation surplus	1,592	1,592

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Under the Articles of Association, the company's minimum share capital is 10,000 thousand euros and the maximum share capital is 40,000 thousand euros. All shares have been paid for.

The annual general meeting of the shareholders of AS Baltika that convened on 11 May 2011 decided to convert the share capital of the Company and the par value of the shares from kroons to euros as on 1 January 2011, the Republic of Estonia joined the Euro area. In order to undertake the conversion of the share capital to euros, the general meeting decided to increase the share capital without making any additional contributions (through a bonus issue) by 1,917 thousand euros. Concurrently with the conversion of the share capital of the Company into euros, the general meeting resolved to undertake the conversion of the present nominal value of 10 kroons into euros and the increase of the nominal value by 0.06 euros for each share. The new nominal value of the share shall be 0.70 euro.

The annual general meeting, resolved to cancel 4,000,000 preference shares and convert them into ordinary shares and decided to issue additional 4,300,000 ordinary shares, as well.

Change in the number of shares

	Issue	Number of shares
Number of shares at 31 Dec 2009, thereof		**22,644,850**
Ordinary shares		18,644,850
Preference shares		4,000,000
Issued at 21 June 2010	Issue of ordinary shares	8,850,000
Number of shares at 31 Dec 2010, thereof		**31,494,850**
Ordinary shares		27,494,850
Preference shares		4,000,000
Cancelled at 31 May 2011	Cancelling of preference shares	-4,000,000
Issued at 31 May 2011	Issue of ordinary shares	4,000,000
Issued at 3 August 2011	Issue of ordinary shares	4,300,000
Number of shares at 30 Sep 2011		**35,794,850**

Shareholders at 30 September 2011

	Number of shares	Holding
ING Luxembourg S.A.	7,590,914	21.21%
E. Miroglio S.A.	4,968,330	13.88%
BMIG OÜ	4,750,033	13.27%
Skandinaviska Enskilda Banken Ab clients	3,591,060	10.03%
Svenska Handelsbanken clients	1,900,000	5.31%
Clearstream Banking Luxembourg S.A. clients	1,843,979	5.15%
Members of management and supervisory boards and persons related to them		
Meelis Milder	726,336	2.03%
Maire Milder	316,083	0.88%
Boriss Loifenfeld	200,366	0.56%
Andrew Paterson	11,000	0.03%
Other shareholders	9,896,749	27.65%
Total	**35,794,850**	**100.00%**

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Shareholders at 31 December 2010 (ordinary shares)

	Number of shares	Holding
BMIG OÜ	4,624,860	16.82%
ING Luxembourg S.A.	3,250,000	11.82%
E. Miroglio S.A.	3,000,000	10.91%
Skandinaviska Enskilda Banken Ab clients	2,967,347	10.79%
Svenska Handelsbanken clients	1,965,000	7.15%
Members of management and supervisory boards and persons related to them		
Meelis Milder	726,336	2.64%
Maire Milder	316,083	1.15%
Boriss Loifenfeld	200,366	0.73%
Ülle Järv	13,850	0.05%
Andrew Paterson	11,000	0.04%
Other shareholders	10,420,008	37.90%
Total	**27,494,850**	**100.00%**

The 35,794,850 ordinary 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.

NOTE 13 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;
- Central European region consists of operations in Poland.

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 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.

The segment information provided to the management board for the reportable segments for the period ended at 30 September 2011 and at 30 September 2010 is as follows

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total
9M 2011 and at 30 Sep 2011						
Revenue (from external customers)	22,233	12,320	738	2,283	350	37,924
Segment profit (loss)[2]	3,208	64	-327	684	323	3,952
Incl. depreciation and amortisation	-766	-519	-31	0	0	-1,316
Inventories of segments	4,012	2,506	10	0	0	6,528

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9M 2010 and at 30 Sep 2010						
Revenue (from external customers)	20,510	12,741	1,065	2,537	271	37,124
Segment profit (loss)[2]	1,747	194	-400	549	204	2,294
Incl. depreciation and amortisation	-942	-651	-108	-18	0	-1,719
Inventories of segments	3,340	2,007	189	0	0	5,536

[1]The wholesale revenue includes the sale of goods, materials and sewing services.
[2]The segment profit is the segment operating profit, excluding other operating expenses and income.

Reconciliation of segment profit to consolidated operating profit

	9M 2011	9M 2010
Total profit for reportable segments	3,952	2,294
Unallocated expenses[1]:		
Distribution costs	-4,352	-4,592
Administrative and general expenses	-2,122	-2,099
Other operating income (expenses), net	-404	140
Operating profit (loss)	**-2,926**	**-4,258**

[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 consolidated inventories

	30 Sep 2011	31 Dec 2010	30 Sep 2011
Total inventories of segments	6,528	5,043	5,536
Inventories in Parent company and production companies	7,150	5,761	5,618
Inventories on balance sheet	**13,678**	**10,804**	**11,154**

NOTE 14 Revenue

	9M 2011	9M 2010
Sale of goods	37,489	36,748
Lease revenue	350	271
Sale of sewing services	61	72
Other	24	33
Total	**37,924**	**37,124**

NOTE 15 Cost of goods sold

	9M 2011	9M 2010
Materials and supplies	15,119	15,308
Payroll costs in production	2,262	2,331
Operating lease expenses	512	326
Other production costs	271	444
Depreciation of assets used in production (Note 8,9)	172	190
Change in inventories	25	122
Change in allowance for inventories	-320	-320
Total	**18,041**	**18,401**

NOTE 16 Distribution costs

	9M 2011	9M 2010
Operating lease expenses	7,737	8,185
Payroll costs	7,503	7,477
Depreciation and amortisation (Note 8,9)	1,425	1,813

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Advertising expenses	890	814
Fuel, heating and electricity costs	534	496
Fees for card payments	273	261
Financial and management fees	203	188
Municipal services and security expenses	202	197
Freight costs	181	171
Information technology expenses	152	151
Travel expenses	146	119
Communication expenses	124	132
Bank fees	71	95
Renovation expenses of retail outlets	68	55
Packaging costs	66	70
Training expenses	41	34
Impairment of trade receivables	28	0
Expenses for uniforms	12	32
Other sales expenses[1]	627	731
Total	**20,283**	**21,021**

[1]Other sales expenses consist of insurance and customs expenses, impairment of trade receivables and service fees connected to administration of market organisations.

NOTE 17 Administrative and general expenses

	9M 2011	9M 2010
Payroll costs[1]	977	984
Depreciation and amortisation (Note 8,9)	281	278
Information technology expenses	202	196
Bank fees	199	148
Fuel, heating and electricity expenses	68	63
Training expenses	42	13
Operating lease expenses	34	47
Communication expenses	33	15
Sponsorship	31	34
Municipal services and security expenses	19	19
Travel expenses	8	2
Other administrative expenses[2]	228	300
Total	**2,122**	**2,099**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount 101 thousand euros (2010: 67 thousand euros).
[2]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting, management, consulting and other services.

NOTE 18 Other operating income

	9M 2011	9M 2010
Foreign exchange income	0	119
Gain from sale of non-current assets	2	18
Other operating income[1]	21	261
Total	**23**	**398**

[1]Other income includes the profit from the sale of trademarks MasCara and Herold in amount of 256 thousand euros in 2010.

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NOTE 19 Other operating expenses

	9M 2011	9M 2010
Foreign exchange losses	320	0
Loss from sale and writing off of non-current assets	15	74
Fines, penalties and tax interest	25	74
Representation costs	6	3
Other operating expenses	61	107
Total	**427**	**258**

NOTE 20 Finance income and costs

	9M 2011	9M 2010
Interest income	0	1
Interest costs	-936	-881
Foreign exchange income (losses)	-92	160
Other finance income	1	0
Other finance costs	-2	0
Total	**-1,029**	**-720**

NOTE 21 Earnings per share

Basic earnings per share

		9M 2011	9M 2010
Weighted average number of shares	pcs	30,212,174	21,889,850
Net profit (loss) attributable to equity holders of the parent		-3,980	-5,062
Basic earnings per share	EUR	**-0.13**	**-0.23**

Diluted earnings per share

		9M 2011	9M 2010
Weighted average number of shares	pcs	30,212,174	21,889,850
Net profit (loss) attributable to equity holders of the parent		-3,980	-5,062
Diluted earnings per share	EUR	**-0.13**	**-0.23**

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to earnings as at 30 September 2011 and 30 September 2010, diluted earnings per share equal basic earnings per share.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in six months of 2011 was 0.95 euros (2010: 0.74 euros).

NOTE 22 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 either significant influence or control, generally implying an ownership interest of 20% or more;
- members of the management, the management board and the supervisory council;
- 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.

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Transactions with related parties

	9M 2011 Purchases	9M 2010 Purchases
Purchases of goods	322	231
Purchases of services	168	163
Total	**490**	**394**

AS Baltika has purchased materials for production and management services from the parties related with members of the management board and the supervisory council.

Balances with related parties

	30 Sep 2011	31 Dec 2010
Trade payables	99	86

Convertible bonds

The annual general meeting held on 18 June 2009 decided that 1,850,000 convertible bonds (G-bonds) with a par value of 0.0064 euros should be issued within the framework of the Group’s management incentive program. Each bond entitles its holder to subscribe for one share of the company with a nominal value of 0.70 euros. The share subscription period for G-bonds shall be from 1 July 2012 until 31 December 2012. The share subscription price is 0.77 euros. Totally were subscribed 1,842 500 bonds.

	Issue date	Bond conversion period	Number of convertible bonds 30 Sept 2011	Number of convertible bonds 31 Dec 2010
G-Bond	30.06.2009	01.07.2012-31.12.2012	1,842,500	1,842,500