Baltika Group

AS BALTIKA

Consolidated interim report for the fourth quarter and 12 months of 2011

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
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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 – 31 December 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 countries and Eastern Europe. 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 through wholesale.

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

At 31 December 2011, the Group employed 1,363 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 31 Dec 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, 4 QUARTER AND 2011

In general Baltika's fourth quarter operating results met the management's expectations – both sales and sales efficiency grew and benefits from the cost cutting efforts made during 2011 were realised. With the strong fourth quarter the Group reached by the end of the year operating income-expense balance and stable financial position. In addition Baltika has adapted it's business model to be more flexible and cost efficient.

Baltika fourth quarter revenue increased by 401 thousand euros (ie 3%) and sales efficiency grew by 10%. The Baltic region showed stable growth and sales in Russia were satisfactory. Sales results were supported by strong collections, including special occasion clothing of Monton and Ivo Nikkolo, in addition the autumn collection sales were partly delayed due to warm weather to last quarter.
The efforts made in restructuring the store network and cost control continue to show results in the fourth quarter of 2011: the distribution expenses decreased by 613 thousand euros (ie 8%) compared to prior year comparative period and administrative and general expenses were reduced by 11%.

As a result of the above mentioned positive factors the operating profit from regular operations (before other operating income and expense) was 930 thousand euros compared to 60 thousand euros in the fourth quarter of 2010. This is best fourth quarter operating profit before other income and expense since 2008 third quarter and in fourth quarter comparison since year 2006.

Despite the regular operating income (before other operating income and expense) one-off non-cash expenses resulted in significant net loss. With the year-end accounting procedures and company's conservative approach, the quarter resulted in significant net loss – 1,880 thousand euros, but as the one-off items discussed below, were non-cash, no changes are made to future financial plans due to it. The Group's cash position and net debt position improved significantly during the final quarter of the year. The main one-off non-cash items in other operating expense in fourth quarter are 1,176 thousand euros from changing prior year inventory accounting principle, 645 thousand euros allowance for third party receivables, 150 thousand euros fixed asset write-down, 500 thousand euros change to investment property fair value.

The restructuring of the Group's retail network is now complete, and other initiatives designed to improve operating and financial results will continue in 2012. Baltika management target for the full year of 2012 is 5% sales growth, sales efficiency growth of 10% and positive EBITDA of ca. 3 million euros. The targets are in accordance with the budget approved by Supervisory Council on February 15 2012, which does not include possible impact from exiting real estate business. Group plans for 2012 include exiting the real-estate business, further developing our multi-channel strategy, including the development of e-store, gradual implementation of store concept upgrades for two largest brands Monton and Mosaic and development of multi-brand strategy, including starting with concessions, to continue the improvement of retail sales efficiency.

In 2012 AS Baltika is planning to exit real estate business and sell office property and land in Tallinn, located at Veerenni Street 24. The company has finished the development process started in 2007, whereby the former factory building has been transformed into complete Baltika Quarter. The Quarter is mainly occupied by external tenants, and Baltika occupies for head office and store "Moetänav" 37% of the total rentable space and plans to continue renting after possible sale of the scheme. With the sale of property the company will focus on its main activity - fashion retailing, AS Baltika has chosen as the property transaction advisor Catella Corporate Finance. With the proceeds from sale the company will reduce leverage and improve its investing capability.

2011 fourth quarter highlights:

- Final retail network restructuring decisions were taken in December with stores to be closed in the beginning of 2012 – four shops in Russia and one in Lithuania. In October one Monton store was closed in Krasnodar, Russia and in November a Baltman store opened in Riga, Latvia. This concludes the last phase in retail network restructuring plan, going forward no further big changes are required. Normal monitoring of store performance and decision making based on changes in the market conditions continue.
- Changes to management efficiency and cost control show positive results: in addition to administrative and general expenses decrease by ca. 11% in the fourth quarter AS Baltika decreased in December space used for head office. New tenants have been found for the freed space and increased rent income will materialise in the beginning of 2012.

- On 16th December the Supervisory Council approved a plan to propose to the ordinary general meeting of shareholders to issue convertible bonds with 2 years maturity for approximately 1.5 million euros. Out of this amount 1.25 million euros loan has already been received from KJK Fund Sicav-SIF, who has taken the obligation to convert to convertible bonds. 1,25 million euros loan consists of 250 thousand euros exisiting liability converted to loan and 1 million euros loan received in December.
- As at 31 December 2011 AS Baltika had net assets of 9,622 thousand euros. Mainly due to one-off expense the company is not compliant with Commercial Code as net assets are not half of the share capital of 25,056 thousand euros. In accordance with the Supervisory Council approved plan the ordinary general meeting of shareholders on 20th April will be proposed to reduce the nominal value of the share, which will ensure compliance with net asset position requirement in Commercial Code.

REVENUE

Revenue increased in fourth quarter of 2011 by 401 thousand euros (3%) compared to fourth quarter of 2010 with the increase coming mainly from retail.

Revenue by activity

EUR thousand	Q4 2011	Q4 2010	+/-	12m 2011	12m 2010	+/-
Retail	14,781	14,329	3%	50,072	48,644	3%
Wholesale	505	574	-12%	2,703	3,007	-10%
Rent	133	113	18%	483	384	26%
Sewing services	39	55	-29%	100	127	-21%
Other	27	13	108%	51	45	13%
Total	**15,485**	**15,084**	3%	**53,409**	**52,207**	2%

Retail

Baltika Group had a successful last quarter, with sales growth to comparative period increasing with each month. The 3% sales increase in fourth quarter compared to prior year is the better considering the comparative period included Polish market stores and large but loss-making Russian stores. Retail sales increased most in Baltics: Latvia23%, Estonia 12% and Lithuania 7%.
While total fourth quarter sales in Russia decreased by 233 thousand euros compared to prior year considering the comparative period includes loss-making store Evropeysky (530 thousand euros sales in the fourth quarter of 2010) closed earlier in 2011 the increase is in fact positive also in Russia.

Retail sales by market

EUR thousands	Q4 2011	Q4 2010	+/-	Share	12m 2011	12m 2010	+/-	Share
Estonia	4,551	4,053	12%	31%	14,676	13 038	13%	26%
Russia	2,845	3,078	-8%	19%	10,502	10 633	-1%	24%
Lithuania	2,978	2,783	7%	20%	9,919	9 854	1%	19%
Latvia	2,446	1,996	23%	17%	7,613	6 450	18%	14%
Ukraine	1,961	1,975	-1%	13%	6,624	7 161	-7%	14%
Poland	0	444	-100%	0%	738	1 508	-51%	3%
Total	**14,781**	**14 329**	**3%**	**100%**	**50,072**	**48 644**	**3%**	**100%**

Stores and sales area

In fourth quarter Group closed a Monton store in Krasnodar, Russia and opened a store of Baltman in Riga, Latvia.
Baltika strengthened brands visual merchandising and window dressing. Fourth quarter focus was on Christmas themed store windows, which had a clear positive impact for brand results and got positive feedback from both clients and shopping centres. Among other recognitions Ivo Nikkolo store won the prize for best Viru Keskus shopping environment of 2011.

Stores by market

	31.12.2011	31.12.2010	Period end sales area change
Estonia	29	30	-2%
Lithuania	29	31	-4%
Russia	23	23	-7%
Ukraine	18	17	6%
Latvia	16	15	5%
Poland	0	4	-100%
Total stores	**115**	**120**	
Total sales area, sqm	**23,111**	**24,424**	**-5%**

The sales efficiency measured in sales per square metre increased in fourth quarter most in Baltic region: Latvia 17%, Estonia 14% and Lihtuania 12%.

Sales efficiency by market (sales per sqm, EUR)

	Q4 2011	Q4 2010	+/-	12m 2011	12m 2010	+/-
Estonia	268	234	14%	213	190	12%
Russia*	194	205	-5%	181	178	1%
Lithuania	178	159	12%	148	127	16%
Latvia	238	203	17%	190	166	15%
Ukraine*	189	187	1%	165	157	5%
Poland	0	123	-100%	99	104	-5%
Total	**214**	**194**	**10%**	**178**	**160**	**11%**

*In local currency, fourth quarter sales efficiency grew by -5% in Russia and 0% in Ukraine while the respective figures for the year were 3% and 10%.

Brands

Baltman and Ivo Nikkolo had the highest increase in retail: 26% and 15% accordingly. Baltman increased sales in all Baltic countries, the highest increase was in Latvia, where in the beginning of November a new store was launched. Ivo Nikkolo increased sales in fourth quarter by 15%, with 9% less retail space as one store was closed in Lithuania in the beginning of the year. Ivo Nikkolo sales were supported by strong winter collection and the new evening gowns collection “INdividuality”.

Retail revenue by brand

EUR thousands	Q4 2011	Q4 2010	+/-	Share	12m 2011	12m 2010	+/-	Share
Monton	7,827	7,869	-1%	53%	26,584	25,827	3%	53%
Mosaic	4,384	4,376	0%	30%	15,485	15,928	-3%	31%
Baltman	1,235	978	26%	8%	4,003	3,354	19%	8%
Ivo Nikkolo	1,243	1,078	15%	8%	3,859	3,452	12%	8%
Other	92	28	229%	1%	141	83	70%	0%
Total	**14,781**	**14,329**	**3%**	**100%**	**50,072**	**48,644**	**3%**	**100%**

Sales efficiency and change in average sales area by brand

	Q4 2011	Q4 2010	+/-	Change in average area	12m 2011	12m 2010	+/-	Change in average area
Monton	208	187	11%	-10%	168	149	13%	-9%
Mosaic	183	178	3%	-2%	161	158	2%	-5%
Baltman	320	284	12%	12%	275	222	24%	-4%
Ivo Nikkolo	355	281	26%	-9%	289	231	25%	-10%
Total retail	**214**	**194**	**10%**	**-6%**	**178**	**160**	**11%**	**-7%**

Monton total sales amounts did not increase as a number of stores closed in 2011 were Monton stores, mainly in Russia and Poland. The sales in existing shops have increased significantly in all countries except Russia.

WHOLESALE

Baltika wholesale in fourth quarter amounted to 505 thousand euros that is decrease of 12% compared to 574 thousand euros in prior comparative period.
Wholesale to Stockman stores in the Russian market continues to bring additional sales compared to 2010 as new stores were opened, where Mosaic collection has been successful. Wholesale to Eastern Europe decreased due the takeover of 3 stores from a wholesale partner in the third quarter of 2011. In the fourth quarter the sales of those stores is included in retail revenue.

OPERATING EXPENSES AND NET LOSS

The Group's gross profit amounted to 8,484 thousand euros for the fourth quarter of 2011, a 2% increase year-over-year on a sales area that was 6% smaller on average. Gross profit margin was 55% as in prior year fourth quarter. The fourth quarter of 2011 cost of goods sold includes inventory allowance of 450 thousand euros that is larger than allowance booked in prior year. The Company foresees larger sales discounts in Ukraine, where consumption slowed in December and January and in Russian stores, which are going to be closed in the beginning of 2012 (stock is sold with higher discount). The year total gross profit margin was 53%, that is one percentage point higher than in 2010.

The efforts made in restructuring the store network and cost control showed results in fourth quarter - distribution expenses decreased by 613 thousand euros ie 8% compared to fourth quarter of 2010. Approximately 2/3 of the cost saving is from closed stores and 1/3 from other cost saving actions. The operating expenses per m^2 improved most in Russia. Distribution costs include restructuring expenses of 175 thousand euros for closing additional stores and moving the office in Russia from Moscow to St. Petersburg in the beginning of 2012. The decision regarding last steps in restructuring retail network and closing stores, mainly in Russia, was taken in 2011 and the costs accrued for accordingly in 2011.

The changes made to improve management efficiency and focus on cost efficiency showed also in administrative and general expenses that in the fourth quarter decreased by 87 thousand euros ie. 11%. The number of personnel working in head office was cut from 176 at 30 September to 165 as at year end.

In December 2011 AS Baltika reduced the space it uses for head office. The space released already has new tenants and cost efficiency should be achieved via increased rent income in the beginning of 2012.
The fourth quarter accounting loss resulted from significant other operating expense. Other operating income and expense net amount of 2,454 thousand euros was 1,932 thousand euros higher than 522 thousand euros expense in fourth quarter of 2010. Included in other operating income and expense is foreign currency result that amounted to profit of 228 thousand euros in fourth quarter of 2011 compared to 50 thousand euros of prior year fourth quarter. With the year-end accounting procedures the following expenses were recorded: 1,176 thousand euros of prior period inventory cost price was expensed when cost accounting principles were reviewed and changed, 645 thousand euros allowance for previously renegotiated third party receivables, 500 thousand euros change to investment property fair value, 150 thousand euros fixed asset write-down. As a result of these items the fourth quarter resulted in operating loss of 1,524 thousand euros compared to 461 thousand euros in 2010.

Overview to accounting net loss in thousand euros

IV Quarter operating results before specific items	**1 555**
Inventory allowance*	- 450
Restructuring provision**	- 175
Regular operating results (before other operating income and expenses)	**930**
Change in inventory cost accounting principle from prior periods***	- 1 176
Receivable allowance***	- 645
Fixed asset write-down***	- 150
Investment property revaluation***	- 500
Other items in other operating income and expense (fx results etc)	17
IV Q Operating results	**- 1 524**
Net financial expense and income tax expense	- 356
IV Quarter accounting net loss	**- 1 880**

*Allowance made for goods sold with high discount in January and February is included in cost of goods sold
**Restructuring provision is mainly for Russia and included in distribution costs
***One-off non-cash items in other operating income and -expense

The net financial expense amounted in the fourth quarter of 2011 to 312 thousand euros compared to 485 thousand in 2010. This is due to the average balance of borrowings decrease from 20,257 thousand euros in fourth quarter of 2010 to that of 18,555 thousand euros in fourth quarter of 2011.

The net loss in fourth quarter of 2011 amounted to 1 880 thousand euros making the 2011 total net loss 5 860 thousand euros compared to 6,332 thousand euros in 2010.

FINANCIAL POSITION

Group cash flows in the fourth quarter were positive – operating cash flow amounted to 718 thousand euros. Not only was operating cash flows used to pay back borrowings, but also finance working capital. Supplier payable balance amounted to 3,945 thousand euros compared to 7,515 thousand as at 30 September 2011. Considering the non-cash changes in working capital (change in inventory accounting principle and accounts receivable allowance) the company financed working capital by 250 thousand euros in fourth quarter. The cash and bank balance increased from 434 thousand euros as at 30 September 2011 to 863 thousand euros as at year end.

At the end of the year, inventories totalled 10,048 thousand euros, that is 750 thousand euros less than a year ago. When made comparable by using current inventory cost accounting principle an increase of 420 thousand euros, i.e. 4% compared with the previous year-end (31.12.2010 amount 10 804 thousand euros and adjustment 1,176 thousand euros). One reason for the increase is general sales growth and partly due to the deferred start of winter season.

At the end of the year, the Group's net debt (interest-bearing liabilities less cash and bank balances) was 17,449 thousand euros which was lower than 30 September 2011 by 965 thousand euros and 31 December 2010 by 1,549 thousand euros. The net debt to equity ratio was 181%. The Group's equity as at 31 December 2011 amounted to 9,622 thousand euros.

The discussions with the largest shareholder KJK Fund Sicav SIF started in the end of III quarter, finalised in signing the first agreement on 30 November 2011. The agreement gives AS Baltika the right to convert existing liabilities in the amount of 250 thousand euros to convertible bonds in case of annual general meeting approval to issue convertible bonds. The liability carries no interest and can be classified in accordance with IAS 32 and 39 as equity instrument in "Reserves" in equity. The second agreement was signed on 16 December 2011, whereby KJK Fund Sicav SIF provided an additional 1 million euros loan to AS Baltika. The loan is unsecured, carries 10% interest and KJK Fund Sicav SIF has taken the obligation to also convert this loan to convertible shares in case of annual general meeting decision to issue convertible bonds.
In accordance with Supervisory Council approved plan the ordinary general meeting of shareholders will be proposed to issue convertible bonds with 2 years maturity for approximately 1.5 million euros from which 1.25 million euros (mentioned above) has been received as loan and borrower has taken the obligation to convert to convertible bonds.

PEOPLE

As at 31 December 2011, Baltika Group employed a total of 1,363 people, that is 50 people less than 30 September 2011 (31 December 2010: 1,419): 765 (2010 : 799) in the retail system, 433 (2010 : 442) in manufacturing and 165 (2010 : 178) at the head office and logistics centre. 2011 average number of staff was 1,405 (2010: 1,527).

Employee remuneration expense in 2011 amounted to 10.5 million euros (2010: 10.7 million euros). The remuneration of the members of the supervisory council and management board totalled 0.3 million euros (2010: 0.3 million euros).

Supervisory Council called back Boriss Loifenfeld from the Management Board effective from 1 November 2011, who continues to work as Wholesale and Eastern Markets Director of AS Baltika.

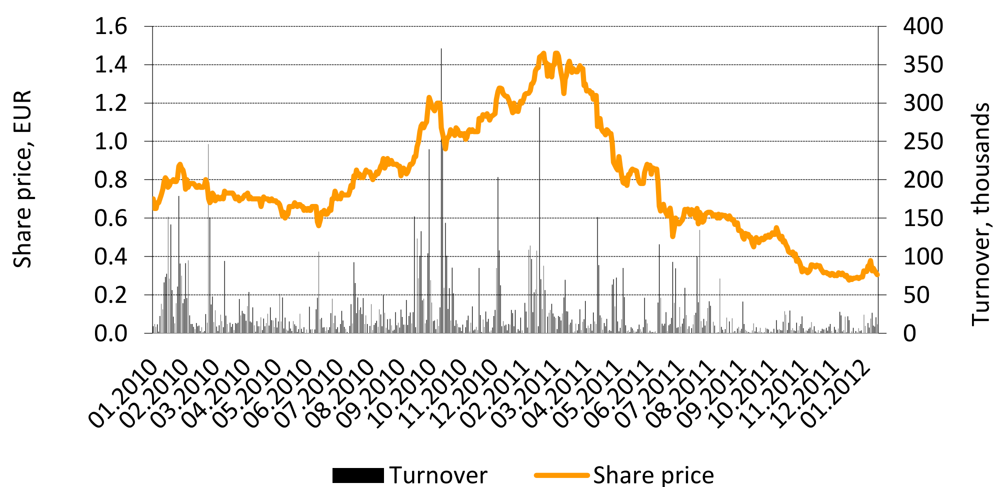
Supervisory Council member Edoardo Miroglio gave on 14th December 2011 letter of resignation. AS Baltika is grateful for his valuable contribution to the company.

KEY FIGURES OF THE GROUP

	31.12.2011	31.12.2010	+/-
Revenue (EUR thousand)	53 409	52 207	2,3%
Retail sales (EUR thousand)	50 072	48 644	2,9%
Share of retail sales in revenue	94%	93%	
Number of stores	115	120	-4,2%
Sales area (sqm)	23 111	24 424	-5,4%
Number of employees (end of period)	1 363	1 419	-3,9%
Gross margin	53,1%	51,8%	
Operating margin	-8,3%	-9,0%	
EBT margin	-10,8%	-11,3%	
Net margin	-11,0%	-12,2%	
Current ratio	1,3	1,6	-18,8%
Inventory turnover	4,54	4,74	-4,4%
Debt to equity ratio	190,3%	160,4%	
Return on equity	-54,8%	-52,6%	
Return on assets	-15,1%	-14,9%	

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

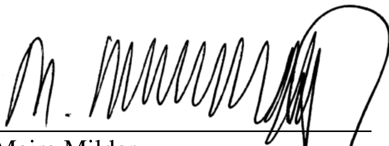


MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

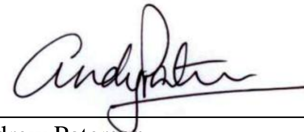
The management board confirms that the management report presents a true and fair view of all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements; includes the description of major risks and doubts influencing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

Meelis Milder
Chairman of the management board
29 February 2012

Maigi Pärnik-Pernik
Member of the management board
29 February 2012



Maire Milder
Member of the management board
29 February 2012



Andrew Paterson
Member of the management board
29 February 2012

Introduction and photos of Management Board members are available in AS Baltika 2010 Annual Report and on homepage www.baltikagroup.com.

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 fourth quarter and twelve months of 2011 as presented on pages 12-31.

The management board confirms that:

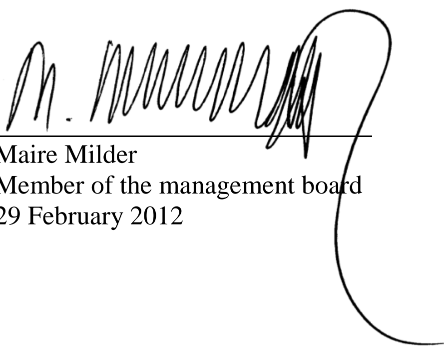
1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;

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;

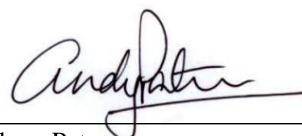
3. all group companies are going concerns.

Meelis Milder
Chairman of the management board
29 February 2012

Maigi Pärnik-Pernik
Member of the management board
29 February 2012



Maire Milder
Member of the management board
29 February 2012



Andrew Paterson
Member of the management board
29 February 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Current assets			
Cash and bank	3	863	823
Trade and other receivables	4	2,189	3,119
Inventories	5,13	10,048	10,804
Total current assets		**13,100**	**14,746**
Non-current assets			
Deferred income tax asset		838	838
Other non-current assets	6	629	780
Investment property	7	8,549	7,069
Property, plant and equipment	8	8,031	12,121
Intangible assets	9	3,665	3,898
Total non-current assets		**21,712**	**24,706**
TOTAL ASSETS		**34,812**	**39,452**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	10	3,178	2,125
Trade and other payables	11	6,785	6,981
Total current liabilities		**9,963**	**9,107**
Non-current liabilities			
Borrowings	10	15,144	17,953
Other liabilities	11	83	37
Total non-current liabilities		**15,227**	**17,990**
TOTAL LIABILITIES		**25,190**	**27,096**
EQUITY			
Share capital at par value	12	25,056	20,129
Share premium		89	1,332
Reserves	12	2,494	2,784
Retained earnings		-11,592	-4,961
Net loss for the period		-5,863	-6,344
Currency translation differences		-727	-747
Total equity attributable to equity holders of the parent		**9,457**	**12,194**
Non-controlling interest		165	162
TOTAL EQUITY		**9,622**	**12,356**
TOTAL LIABILITIES AND EQUITY		**34,812**	**39,452**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q4 2011	Q4 2010	2011	2010
Revenue	13,14	15,485	15,084	53,409	52,207
Cost of goods sold	15	-7,001	-6,770	-25,042	-25,171
Gross profit		**8,484**	**8,314**	**28,367**	**27,036**
Distribution costs	16	-6,812	-7,425	-27,095	-28,446
Administrative and general expenses	17	-742	-829	-2,864	-2,928
Other operating income	18	36	248	59	646
Other operating expenses	19	-2,490	-770	-2,917	-1,027
Operating loss	13	**-1,524**	**-461**	**-4,450**	**-4,719**
Finance income	20	2	40	3	201
Finance costs	20	-314	-525	-1,344	-1,406
Loss before income tax		**-1,836**	**-947**	**-5,791**	**-5,925**
Income tax expense		-44	-332	-69	-407
Net loss		**-1,880**	**-1,279**	**-5,860**	**-6,332**
Loss attributable to:					
Equity holders of the parent company		-1,883	-1,279	-5,863	-6,344
Non-controlling interest		3	0	3	12
Other comprehensive income (loss)					
Currency translation differences		-30	30	20	-145
Total comprehensive income (loss)		**-1,910**	**-1,249**	**-5,840**	**-6,477**
Comprehensive income (loss) attributable to:					
Equity holders of the parent company		-1,913	-1,249	-5,843	-6,490
Non-controlling interest		3	0	3	12
Basic earnings per share, EUR	21	-0.05	-0.05	-0.19	-0.27
Diluted earnings per share, EUR	21	-0.05	-0.05	-0.19	-0.27

CONSOLIDATED CASH FLOW STATEMENT

	Note	Q4 2011	Q4 2010	2011	2010
Operating activities					
Operating loss		-1,524	-461	-4,450	-4,719
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	8,9	541	690	2,422	2,983
Loss from disposal of PPE		100	445	160	518
Revaluation of investment property	7	500	0	500	0
Impairment of trade receivables	4,19	699	0	699	0
Change in cost price principle of finished goods and goods purchased for resale	5,19	1,176	0	1,176	0
Other non-monetary expenses		-166	33	29	-293
Changes in working capital:					
Change in trade and other receivables	4	373	1,206	174	-61
Change in inventories	5	2,446	350	-420	1,223
Change in trade and other payables	11	-3,127	-853	-221	-3,201
Interest paid		-301	-500	-1,239	-1,391
Income tax paid		1	-3	-143	-57
Net cash generated from operating activities		**718**	**907**	**-1,313**	**-5,000**
Investing activities					
Acquisition of property, plant and equipment, intangibles, thereof	8,9	-18	-182	-142	-402
Under finance lease terms		0	0	5	43
Proceeds from disposal of property, plant and equipment		69	-24	71	1,548
Interest received		0	0	0	1
Net cash used in investing activities		**51**	**-206**	**-66**	**1,190**
Financing activities					
Received borrowings	10	1,000	1,212	2,193	1,884
Repayments of borrowings	10	-292	-279	-2,336	-2,797
Change in bank overdraft	10	-1,061	-1,234	-1,150	-1,275
Repayments of finance lease and other liabilities		-50	-57	-218	-248
Receipts from share issue		0	0	3,010	6,787
Dividend paid for preference shares		0	-49	-49	-291
Treasury stock transactions		0	-5	0	-5
Bonds transactions		0	0	-1	0
Net cash generated from financing activities		**-403**	**-412**	**1,449**	**4,055**
Effect of exchange gains (losses) on cash and cash equivalents		63	33	-30	193
Total cash flows		**429**	**322**	**40**	**438**
Cash and cash equivalents at the beginning of the period	3	**434**	**501**	**823**	**385**
Cash and cash equivalents at the end of the period	3	**863**	**823**	**863**	**823**
Change in cash and cash equivalents		**429**	**322**	**40**	**438**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent							
	Share capital	**Share premium**	**Reserves**	**Retained earnings**	**Currency translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 31 December 2009	**14,473**	**67**	**2,784**	**-4,961**	**-601**	**11,762**	**162**	**11,924**
Profit (loss) for the period	0	0	0	-6,344	0	-6,344	12	-6,331
Other comprehensive income (loss)	0	0	0	0	-145	-145	0	-145
Total comprehensive income (loss)	0	0	0	-6,344	-145	-6,489	12	-6,477
Equity-settled share-based transactions	0	134	0	0	0	134	0	134
Increase of share capital	5,656	1,131	0	0	0	6,787	0	6,787
Change of non-controlling interest	0	0	0	0	0	0	-12	-12
Balance as at 31 December 2010	**20,129**	**1,332**	**2,784**	**-11,305**	**-747**	**12,194**	**162**	**12,356**
Balance as at 31 December 2010	**20,129**	**1,332**	**2,784**	**-11,305**	**-747**	**12,194**	**162**	**12,356**
Profit (loss) for the period	0	0	0	-5,863	0	-5,863	3	-5,860
Other comprehensive income (loss)	0	0	0	0	20	20	0	20
Total comprehensive income (loss)	0	0	0	-5,863	20	-5,843	3	-5,840
Equity-settled share-based transactions	0	134	0	0	0	134	0	134
Liability classification to equity instrument (Note 12)	0	0	250	0	0	250	0	250
Increase of share capital	4,927	-1,377	-540	-287	0	2,723	0	2,723
Balance as at 31 December 2011	**25,056**	**89**	**2,494**	**-17,455**	**-727**	**9,457**	**165**	**9,622**

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. The largest shareholder and the only company holding above 20% of shares (Note 12) of AS Baltika is KJK Fund Sicaf-SIF (on ING Luxembourg S.A. account).

The Group's condensed consolidated interim report for the twelve months ended 31 December 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 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. Due to the macroeconomic and Group´s situation the management of the Group's Parent company considers all the risks as significant risks for the Group.

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), RUB (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 –1.54% (2010: +8.78%), Ukrainian hryvnia –5.54% (2010: +5.89%), Polish zloty -3.15% (2010: +7.69%) and Latvian lat +0.34% (2010: -0.43%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was -5.00% (2010: +4.95%).

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

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

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 and the Group has no other significant interest-bearing 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 bearing 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 at 31 December 2011 and 31 December 2010 were subject to a floating interest rate based on Euribor, which is fixed every 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 31 December 2011 the maximum exposure to credit risk from trade receivables (Note 4) amounted 533 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 49 thousand euros (31 December 2010: 883 thousand euros), without net balances with the Eastern European wholesale partners (31 December 2010: 850 thousand euros) and balances with retail customers for bank card payments of 49 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.

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. If the volume of financing reduces significantly, it 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.

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 31 December 2011

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Borrowings (Note 10)[2]	18,166	4,195	16,627	20,822
Finance lease liabilities (Note 10)	146	126	28	154
Trade payables (Note 11)	3,945	3,945	0	3,945
Other financial liabilities (Note 10,11)[3]	129	129	0	129
Total	**22,386**	**8,395**	**16,655**	**25,050**

Financial liabilities by maturity at 31 December 2010

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Borrowings (Note 10)[2]	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)[3]	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]Overdraft facilities are shown under bank borrowings payable within 1-5 years in the amount of maximum term available for the Group.

[3]Other financial liabilities include accrued expenses in amount of 119 thousand euros (31 December 2010: 105 thousand euros) and component of G-bonds in amount of 10 thousand euros (31 December 2010: 195 thousand euros dividends liabilities of preference shares).

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.

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.

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 capital to net debt ratio. This ratio is calculated as net debt divided by total capital. 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 capital to net debt ratio within the range of 30% to 35% but due to macroeconomic and Group´s situation it was not achieved in 2011 and 2010. The capital to net debt ratio was influenced by the earned comprehensive loss.

Capital to net debt ratio of the Group

	31 Dec 2011	**31 Dec 2010**
Total borrowings (Note 10)	18,312	19,821
Cash and bank (Note 3)	-863	-823
Net debt	17,449	18,998
Total equity	9,622	12,356
Total capital	27,071	31,354
Capital to net debt ratio	**64%**	**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 31 December 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

	31 Dec 2011	**31 Dec 2010**
Cash on hand	391	301
Cash at bank	472	452
Short-term deposits	0	70
Total	**863**	**823**

Cash and bank by currency

	31 Dec 2011	31 Dec 2010
RUB (Russian rouble)	277	114
EUR (euro)	221	97
LTL (Lithuanian lit)	162	94
UAH (Ukrainian hryvnia)	155	164
LVL (Latvian lat)	46	53
PLN (Polish zloty)	2	146
EEK (Estonian kroon)	0	155
Total	**863**	**823**

NOTE 4 Trade and other receivables

	31 Dec 2011	31 Dec 2010
Trade receivables, net	533	1,253
Other prepaid expenses	881	888
Tax prepayments and tax reclaims, thereof	675	684
Value added tax	656	662
Prepaid income tax	14	0
Other taxes	5	22
Other current receivables	100	294
Total	**2,189**	**3,119**

Trade receivables

	31 Dec 2011	31 Dec 2010
Trade receivables, gross	1,203	1,287
Allowance for impairment of trade receivables	-670	-34
Trade receivables, net	**533**	**1,253**

Trade receivables (net) by due date

	31 Dec 2011	31 Dec 2010
Not due	463	1,206
Up to 1 month past due	35	41
1-3 months past due	23	2
3-6 months past due	3	0
Over 6 months past due	9	4
Total	**533**	**1,253**

Trade receivables (net) in denominated currency

	31 Dec 2011	31 Dec 2010
EUR (euro)	358	901
LVL (Latvian lat)	90	57
RUB (Russian rouble)	49	28
LTL (Lithuanian lit)	36	36
EEK (Estonian kroon)	0	220
PLN (Polish zloty)	0	6
UAH (Ukrainian hryvnia)	0	5
Total	**533**	**1,253**

NOTE 5 Inventories

	31 Dec 2011	31 Dec 2010
Fabrics and accessories	1,487	1,344
Allowance for impairment of fabrics and accessories	-13	-13
Work-in-progress	62	72
Finished goods and goods purchased for resale	8,798	9,409
Allowance for impairment of finished goods and goods purchased for resale	-450	-320
Prepayments to suppliers	164	312
Total	**10,048**	**10,804**

The allowance for finished goods as at 31 December 2011 compared to previous balance sheet date has increased, due to larger expected sales discounts in Ukraine due to lower consumption in December and January and taking into account that some stores in Russia are going to be closed (high discount sales are made).

The principles used in recording finished goods cost price were changed in 2011, the amount of inventory that would have been different in previous period of 1,176 thousand euros if same estimates were used has been recognised in "Other operating expense", refer to Note 19.

NOTE 6 Other non-current assets

	31 Dec 2011	31 Dec 2010
Non-current lease prepayments	367	390
Other long-term receivables	262	390
Total	**629**	**780**

NOTE 7 Investment property

	2011	2010
Balance as at 1 January	**7,069**	**6,602**
Reclassification from property, plant and equipment	1,980	468
Revaluation to fair value through profit or loss	-500	0
Balance as at 31 December	**8,549**	**7,069**

Investment property consists of 4,500 square metres of land and two office buildings, located at 24 Veerenni in Tallinn, Estonia. Real estate properties that are occupied by Group are recorded under fixed assets. During 2011 due to change in space used as property, part of the property, plant and equipment was reclassified to investment property in amount of 1,980 thousand euros.

The carrying value of land and buildings measured at fair value has been updated to reflect market conditions at the reporting date. The fair value calculations for buildings use detailed cash flow projections covering a three-year period – three years of rental income according to rental contracts and profit from sale of investment property at the price of value-in-use at the end of the third year. The management's estimate concerning the buildings located at Veerenni 24, Tallinn, Estonia fell in the range of estimated fair value. Land market value has been determined in 2011 using value in use calculations based on cash flow projections (2010 sales comparison method). During 2011 the difference between the fair value and the carrying amount of the investment property amounting to 500 thousand euros that was mainly from land revaluation due to changed valuation method was recognised as loss under "Other operating expenses" (Note 19).

NOTE 8 Property, plant and equipment

	Land and construction rights	Buildings and structures	Machinery and equipment	Other fixtures	Construction in progress	Prepayments	Total
31 December 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**	**11,741**	**1,881**	**3,169**	**7**	**11**	**16,819**
Additions	0	23	144	120	11	1	299
Disposals	-11	-1,628	-81	-84	0	0	-1,804
Reclassifications to investment property	0	-468	0	0	0	0	-468
Impairment	0	-115	-62	-67	0	0	-245
Depreciation	0	-1,010	-494	-1,155	0	0	-2,659
Currency translation differences[1]	0	58	28	90	0	1	177
31 December 2010							
Acquisition cost	**0**	**11,607**	**5,861**	**6,979**	**19**	**13**	**24,478**
Accumulated depreciation	0	-3,005	-4,445	-4,908	0	0	-12,357
Net book amount	**0**	**8,602**	**1,416**	**2,071**	**19**	**13**	**12,121**
Additions	0	48	42	40	0	0	130
Reclassifications from inventory	0	0	0	5	0	0	5
Disposals	0	-51	-4	-12	-8	-11	-86
Reclassifications to inventories	0	0	-28	-38	0	0	-66
Reclassifications to investment property	0	-1,980	0	0	0	0	-1,980
Reclassification	0	11	-64	64	-10	-1	0
Impairment	0	-10	0	0	0	0	-10
Depreciation	0	-729	-376	-925	0	0	-2,030
Currency translation differences[1]	0	-20	-8	-23	-1	-1	-53
31 December 2011							
Acquisition cost	**0**	**9,231**	**5,633**	**6,691**	**0**	**0**	**21,555**
Accumulated depreciation	0	-3,360	-4,655	-5,509	0	0	-13,524
Net book amount	**0**	**5,871**	**978**	**1,182**	**0**	**0**	**8,031**

[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
31 December 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	80	0	23	60	163
Disposals	-18	0	0	0	-18
Amortisation	-292	-32	0	0	-324
Currency translation differences[1]	11	0	0	94	105
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	12	0	0	194	206
Disposals	-76	0	0	0	-76
Reclassification	13	0	-13	0	0
Depreciation	-302	-32	0	0	-334
Currency translation differences[1]	-5	0	0	-24	-29
31 December 2011					
Acquisition cost	**2,187**	**643**	**10**	**2,218**	**5,058**
Accumulated depreciation	-1,222	-171	0	0	-1,393
Net book amount	**965**	**472**	**10**	**2,218**	**3,665**

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

In 2011, in line with an agreement, Baltika took over the operation of three stores belonging to its Russian wholesale partner in the Ural region. As a result of the takeover the goodwill increased by 194 thousand euros.

NOTE 10 Borrowings

	31 Dec 2011	31 Dec 2010
Current borrowings		
Current portion of non-current bank loans	2,047	1,697
Current portion of finance lease liabilities	121	233
Other current loans	1,000	0
Liability component of preference shares	10	195
Total	**3,178**	**2,125**
Non-current borrowings		
Non-current bank loans	15,119	17,747
Non-current finance lease liabilities	25	144
Convertible bonds and other non-current liabilities	0	62
Total	**15,144**	**17,953**
Total borrowings	**18,322**	**20,078**

During the reporting period, the Group made loan repayments in the amount of 2,336 thousand euros (2010: 2,797 thousand euros). Loan interest expense of the reporting period amounted to 1,236 thousand euros (2010: 1,407 thousand euros). The Group received a loan on 16th December 2011 from a related party in the amount of 1,000 thousand euros with 10% interest rate (Note 22). The agreement includes borrowers obligation to convert the loan to convertible bonds should ordinary annual general meeting approve their issuance.

For the possible sale of real estate the consent has been received from banks and changes in payment schedule agreed.

Borrowings of the Group as at 31 December 2011

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	17,166	4.60%
Borrowings at fixed interest rate	1,000	10.00%
Total	**18,166**	

Borrowings of the Group as 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

	31 Dec 2011	31 Dec 2010
Current liabilities		
Trade payables	3,945	4,355
Tax liabilities, thereof	1,567	1,610
Personal income tax	177	158
Social security taxes and unemployment insurance premium	443	429
Value added tax	849	840
Corporate income tax liability	51	117
Other taxes	47	66
Payables to employees[1]	921	767
Other accrued expenses[2]	119	105
Customer prepayments	26	40
Other current payables	207	104
Total	**6,785**	**6,981**
Non-current liabilities		
Other liabilities[3]	83	37

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

Trade payables in denominated currency

	31 Dec 2011	31 Dec 2010
EUR (euro)	2,382	933
USD (US dollar)	1,270	1,705
PLN (Polish zloty)	95	164
LTL (Lithuanian lit)	71	82

RUB (Russian rouble)	53	125
LVL (Latvian lat)	45	44
EEK (Estonian kroon)	0	1,280
Other currencies	29	22
Total	**3,945**	**4,355**

NOTE 12 Equity

	31 Dec 2011	31 Dec 2010
Share capital	25,056	20,129
Number of shares (pcs)	35,794,850	31,494,850
Nominal value of share (EUR)	0.70	0.64
Statutory reserve	652	1,192
Revaluation surplus	1,592	1,592
Other reserves (Note 22)	250	0

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 from share premium and reserves. 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 is 0.70 euro.

The annual general meeting, resolved to cancel 4,000,000 preference shares and decided to issue 4,000,000 ordinary shares instead, also decided to issue additional 4,300,000 ordinary shares. As a result of the issuing shares the Group received additional monetary assets in amount of 3,010 thousand euros. Costs related to issue were 287 thousand euros. Refer also to Note 22.

30 November 2011 an agreement was signed with a related party that existing liabilities (dividends from preference shares and emission quarantee costs) in the amount of 250 thousand euros were converted to loan that carries no interest. The borrower also takes the obligation to convert the loan to convertible bonds if the ordinary annual general meeting resolves to issue them. The loan is recorded as an equity instrument in equity "Reserves".

Change in the number of shares

	Issue	Number of shares
Number of shares as 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 as 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 as at 31 Dec 2011		**35,794,850**

Shareholders as at 31 December 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	1,895,000	5.29%
Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	726,336	2.03%
Maire Milder	316,083	0.88%
Andrew Paterson	11,000	0.03%
Other shareholders	11,946,094	33.38%
Total	**35,794,850**	**100.00%**

Shareholders as 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 (Baltika Poland Sp.z.o.o.ended its business activities in 2011).

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 31 December 2011 and at 31 December 2010 is as follows

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total segments
2011 and at 31 December 2011						
Revenue (from external customers)	32,208	17,126	738	2,854	483	53,409
Segment operating profit (loss)[2]	6,045	-518	-374	834	423	6,410
Incl. depreciation and amortisation	-989	-659	-11	0	0	-1,659
Inventories of segments	3,512	2,195	0	0	0	5,707
2010 and at 31 December 2010						
Revenue (from external customers)	29,341	17,794	1,508	3,179	385	52,207
Segment operating profit (loss)[2]	3,841	-244	-610	706	312	4,006
Incl. depreciation and amortisation	-1,231	-853	-122	-18	0	-2,224
Inventories of segments	2,957	1,931	155	0	0	5,043

[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. In 2011 the segment profit also includes restructuring costs that can be allocated to segments. Due to change in management reporting how the expenses are allocated, the comparative numbers of 2010 segment operating profit (loss) were changed accordingly.

Reconciliation of segment profit to consolidated operating profit

	2011	2010
Total segment operating profit	6,410	4,006
Unallocated expenses[1]:		
Distribution costs	-5,138	-5,416
Administrative and general expenses	-2,864	-2,928
Other operating income (expenses), net	-2,858	-381
Operating loss	**-4,450**	**-4,719**

[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

	31 Dec 2011	31 Dec 2010
Total inventories of segments	5,707	5,043
Inventories in Parent company and production companies	4,341	5,761
Inventories on balance sheet	**10,048**	**10,804**

NOTE 14 Revenue

	2011	2010
Sale of goods	52,776	51,650
Lease revenue	483	385
Sale of sewing services	101	127
Other	49	45
Total	**53,409**	**52,207**

NOTE 15 Cost of goods sold

	2011	2010
Materials and supplies	20,745	20,775
Payroll costs in production	2,856	3,022
Operating lease expenses	685	641
Other production costs	373	381
Depreciation of assets used in production (Note 8,9)	229	249
Change in allowance for inventories	130	0
Change in inventories	24	104
Total	**25,042**	**25,171**

NOTE 16 Distribution costs

	2011	2010
Operating lease expenses	10,252	10,974
Payroll costs	10,179	9,955
Depreciation and amortisation (Note 8,9)	1,806	2,376
Advertising expenses	1,152	1,192
Fuel, heating and electricity costs	717	688
Fees for card payments	389	370
Financial consultation and management fees	279	266
Municipal services and security expenses	279	374
Freight costs	250	234
Information technology expenses	188	208
Travel expenses	185	173
Communication expenses	161	177
Bank fees	98	126
Renovation expenses of retail outlets	97	84
Packaging costs	92	106
Training expenses	54	47
Expenses for uniforms	25	52
Other sales expenses[1]	892	1,044
Total	**27,095**	**28,446**

[1]Other sales expenses mostly consist of insurance and customs expenses and service fees connected to administration of market organisations.

NOTE 17 Administrative and general expenses

	2011	2010
Payroll costs[1]	1,300	1,332
Depreciation and amortisation (Note 8,9)	374	368
Information technology expenses	259	267
Bank fees	256	223
Fuel, heating and electricity expenses	92	87
Sponsorship	53	22
Training expenses	45	26
Operating lease expenses	42	63
Communication expenses	40	45
Management and consulting fees	31	96
Municipal services and security expenses	26	25
Travel expenses	11	4
Other administrative expenses[2]	335	370
Total	**2,864**	**2,928**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount 134 thousand euros (2010: 134 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

	2011	2010
Foreign exchange income	0	167
Gain from sale of non-current assets	4	20
Other operating income[1]	55	459
Total	**59**	**646**

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

NOTE 19 Other operating expenses

	2011	2010
Foreign exchange losses	92	0
Loss from writing off of non-current assets	164	484
Loss from revaluations of investment property (Note 7)	500	0
Fines, penalties and tax interest	59	101
Representation costs	8	6
Other operating expenses	2,094	436
Total	**2,917**	**1,027**

[1]Other operating expenses include 1,176 thousand euros from the change in principles used in recording finished goods cost price that were changed in 2011 (Note 5) and 699 thousand euros from allowance for impairment of trade receivables (Note 4).

NOTE 20 Finance income and costs

	2011	2010
Interest income	1	1
Interest costs, thereof	-1,236	-1,407
Loan interests	-1,219	-1,153
Other interests	-17	-253
Foreign exchange income (losses)	-30	193
Other finance income	2	7
Other finance costs	-78	0
Total	**-1,341**	**-1,206**

NOTE 21 Earnings per share

Basic earnings per share

		2011	2010
Weighted average number of shares	pcs	31,629,918	23,348,686
Net profit (loss) attributable to equity holders of the parent		-5,863	-6,344
Basic earnings per share	EUR	**-0.19**	**-0.27**

Diluted earnings per share

		2011	2010
Weighted average number of shares	pcs	31,629,918	23,348,686
Net profit (loss) attributable to equity holders of the parent		-5,863	-6,344
Diluted earnings per share	EUR	**-0.19**	**-0.27**

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to earnings as at 31 December 2011 and 31 December 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 twelve months of 2011 was 0.81 euros (2010: 0.82 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.

Only members of the Parent company Management Board and Supervisory Council are considered as related parties, as only they have responsibility for planning, directing and controlling Group activities.

Transactions with related parties

	2011		2010	
	Purchases	**Sales**	**Purchases**	**Sales**
Goods	152	1	297	0
Services	493	0	224	0
Total	**645**	**1**	**521**	**0**

AS Baltika has purchased materials for production, sold goods and also bought management and other services.

Balances with related parties

	31 Dec 2011	31 Dec 2010
Loans and interests	1,003	0
Trade payables	233	86
Equity instrument (Note 12)	250	0
Total	**1,486**	**86**

Compensation for the members of the Management Board and Supervisory Council

	2011	2010
Salaries of the members of the Management Board (6 members)[1]	304	278
Remuneration of the members of the Supervisory Council (7 members)[2]	29	31
Total	**333**	**309**

[1]In 2011, two members resigned and one member joined the Management Board. As at 31 December 2011 there were four members in the Management Board.
[2]In 2011 one member resigned the Supervisory Council (2010: two additional members joined the Supervisory Council). As at 31 December 2011 there were six members in the Supervisory Council.

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

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 31 Dec 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

NOTE 23 Net asset position

As at 31 December 2011 the Group had net assets of 9,622 thousand euros. AS Baltika is not compliant with Commercial Code as net assets are not half of share capital of 25,056 thousand euros. In accordance with Supervisory Council approved plan the ordinary general meeting of shareholders will be proposed to reduce the nominal value of the share, which will ensure compliance with Commercial Code.

AS Baltika is considering plan to sell office property and land in Tallinn, located on Veerenni Street 24. With the sale of property the company wants to focus on its main activity - fashion retailing, repay loans and improve its investing capability. AS Baltika has chosen as the property transaction advisor Catella Corporate Finance. AS Baltika plans to continue renting the space currently in use.

In accordance with Supervisory Council approved plan the ordinary general meeting of shareholders will be proposed to issue convertible bonds with 2 years maturity for approximately 1.5 million euros from which 1.25 million euros has been received as loan and borrower has taken the obligation to convert to convertible bonds.

NOTE 24 Members of Supevisory Council

Chairman of Supervisory Council is Tiina Mõis and other member: Reet Saks, Allan Remmelkoor, Andres Erm, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin.

Introduction and photos of Supervisory Council members are available in AS Baltika 2010 Annual Report and on homepage www.baltikagroup.com.