AS BALTIKA

Consolidated interim report for the first quarter and 3 months of 2012

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
Fax	+372 630 2814
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 2012 – 31 December 2012
Reporting period	1 January 2012 – 31 March 2012

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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.

As at 31 March 2012, the Group employed 1,316 people (31 December 2011: 1,363).

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 as at 31 March 2012**	**Holding as at 31 Dec 2011**
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, FIRST QUARTER 2012

Strong sales results supported Baltika in exceeding its expected results for the first quarter. Owing to the seasonal nature of the retail market, the first quarter is the weakest for Baltika and the company ended it with a loss of 1,043 thousand euros, a more than two-fold improvement on the loss incurred in the same period last year. Better than forecasted results, continued cost control and increasing efficiency support achieving the planned financial target for 2012, which is an EBITDA of 3 million euros.

The sales increase in all first quarter months was based on strong collections and overall growth in consumption in most of Baltika's markets. Although the average retail sales area was 8% smaller, Baltika's first quarter sales increased by 872 thousand euros i.e. 7% year over year and sales efficiency improved by 16%. The main growth driver continued to be the Baltic region but, considering the decrease in sales area, Russia also posted very good results, achieving a 16% improvement in sales efficiency.

The restructuring of retail network in 2011, which finalised with closing stores in the first quarter of current year, gave results in decreasing distribution expenses. In the first quarter of 2012 distribution expenses decreased by 444 thousand euros compared to last year and distribution costs ratio to net sales has improved by 8 percentage points (52% compared to 60% in 2011).

An 8% decrease in administrative and general expenses proves that the changes made in the third quarter of 2011 to streamline management and on-going cost control are yielding results. In the first quarter operating expenses have decreased by 503 thousand euros and ratio to net sales has improved by 9 percentage points compared to first quarter of 2011.

2012 fourth quarter highlights

- In February, Baltika began selling under a concession agreement the products of the German lifestyle brand Stones in eight of its Baltic Baltman and multi-brand stores. The purpose of the move is to improve the stores' sales efficiency and to offer the customers a wider product range.
- In February, the company opened a new sales channel, the Monton e-store, by which the Monton collection has been dispatched to more than 15 European countries. In Estonia the e-store was launched in April concurrently with the sale of the Olympic fan collection. The official international launch of the e-store and the associated marketing campaign are scheduled for the beginning of the autumn season.
- According to 2011 year end plans seven stores were closed in the the first quarter of 2012 – main closures were in January when four Monton and Mosaic stores were closed in Russia, Mosaic brand store in Latvia and Ukraine, Baltman store in Lithuania.
- In the first quarter, Baltika began working with Catella Corporate Finance to find potential buyers for the Baltika Quarter. Company has received offers from several potential buyers and sales process is in line with the planned time schedule.

The annual general meeting of shareholders was held on 20 April 2012

- The annual general meeting decided on simplified reduction of share capital to 7,159 thousand euros, which makes the equity required by Commercial Code amount to 3,579 thousand euros. The decision ensures compliance with the Commercial Code requirement.
- The annual general meeting decided the issuance of two types of convertible bonds. 5,000,000 convertible bonds (H-Bond) are issued on 10 May 2012 with nominal amount of 0.3 euros – every bond gives the owner the right to subscribe for one share of the Company, subscription period is 11 May 2013–10 May 2014. Bonds carry 7.5% interest per annum.
- 2,350,000 convertible bonds are issued to the management of the Baltika Group of companies on 30 June 2012 with the nominal amount of 0.01 euros. Each bond gives the owner the right to subscribe for one share of the Company, subscription period is 1 July 2015 to 31 December

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2015. The subscription price of the share will be the average sales price of the share for the preceding three months, e.g. from 19 January 2012 to 19 April 2012.

REVENUE

Revenue increased in first quarter of 2012 by 872 thousand euros (7%) compared to the same period in 2011. The increase came mainly from retail and also from rental income. In the end of 2011 Baltika's head office moved to smaller space and additional rental income from freed space has increased company's revenues.

Revenue by activity

EUR thousand	Q1 2012	Q1 2011	+/-
Retail	11,531	10,755	7%
Wholesale	838	845	-1%
Rent	168	110	53%
Sewing services	77	54	43%
Other	29	7	314%
Total	**12,643**	**11,771**	**7%**

Retail

Baltika Group sales efficiency grew considerably in the first quarter of 2012. Company retail sales grew by 7% although comparative period included sales of large loss making stores (Moscow Evropeysky and Polish market stores) and average sales area has decreased by 8%.

Retail sales increased most in Baltics: Latvia 27%, Estonia 18% and Lithuania 9%.

Retail sales by market

EUR thousands	Q1 2012	Q1 2011	+/-	Share
Estonia	3,305	2,808	18%	29%
Russia	2,430	2,543	-4%	21%
Lithuania	2,316	2,118	9%	20%
Latvia	1,895	1,490	27%	16%
Ukraine	1,585	1,494	6%	14%
Poland	0	302	-100%	0%
Total	**11,531**	**10,755**	**7%**	**100%**

Stores and sales area

In the first quarter of 2012 Group closed four shops in Russia, one in Latvia, Lithuania and Ukraine.

Stores by market

	31 March 2012	31 March 2011	Period end sales area change
Estonia	29	30	-2%
Lithuania	28	29	-1%
Russia	19	22	-21%
Ukraine	17	16	4%
Latvia	15	15	-2%
Poland	0	4	-100%
Total stores	**108**	**116**	
Total sales area, sqm	**21,807**	**23,961**	**-9%**

Sales efficiency measured in sales per square metre increased in the first quarter in all markets: most in Latvia 26% and Estonia 20%. Russian market, where shops with low efficiency have been closed, showed substantial improvement with efficiency growth of 16%. Sales efficiency grew in Lithuania by 11% and in Ukraine 2%.

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Sales efficiency by market (sales per sqm, EUR)

	Q1 2012	Q1 2011	+/-	Avera area change
Estonia	195	162	20%	-2%
Russia[1]	192	166	16%	-18%
Latvia	191	151	26%	1%
Ukraine[1]	155	153	2%	4%
Lithuania	139	126	11%	-1%
Poland	0	99	-100%	-100%
Total	**173**	**149**	**16%**	**-8%**

[1]In local currency, first quarter sales efficiency grew by 15% in Russia and -2% in Ukraine.

Brands

Baltman, Ivo Nikkolo and Monton had the highest increase in retail: 20%, 9% and 7% accordingly. Baltman increased sales the most in Estonia, growth in Latvia was achieved through increased sales area compared to first quarter of previous year as one store was opened in November 2011.

In addition to achieving 9% sales growth, Ivo Nikkolo received recognition from WGSN, the world's largest fashion and trend portal for professionals, which selected Ivo Nikkolo's spring image campaign as one of the world's best of its kind. Monton's excellent performance was underpinned by a strong and successful women's collection whose turnover rate exceeded earlier collections' turnover rates in previous first quarters. Mosaic's total first quarter sales grew by 3% and sales efficiency improved by 11%, primarily because less efficient stores were closed during the past year and a lot of effort has been put in collection development.

Retail revenue by brand

EUR thousands	Q1 2012	Q1 2011	+/-	Share
Monton	6,037	5,641	7%	52%
Mosaic	3,531	3,417	3%	31%
Baltman	975	810	20%	8%
Ivo Nikkolo	965	882	9%	8%
Other	23	5	360%	0%
Total	**11,531**	**10,755**	**4%**	**100%**

Two of the largest brands increased most their sales efficiency – Monton by 21% and Mosaic 11%. Baltman increased sales efficiency in the first quarter 9% and Ivo Nikkolo 4%.

Sales efficiency and change in average sales area by brand

	Q1 2012	Q1 2011	+/-	Average area change
Monton	166	137	21%	-11%
Mosaic	157	142	11%	-7%
Baltman	249	228	9%	10%
Ivo Nikkolo	272	261	4%	5%
Total	**173**	**149**	**16%**	**-8%**

Wholesale

Baltika's wholesale amounted to 838 thousand euros in the first quarter 2012 that is decrease of 1% compared to 845 thousand euros in prior year comparative period.

Wholesale to Eastern Europe decreased due the takeover of 3 stores from a wholesale partner in the third quarter of 2011, thereafter the sales of those stores is included in retail revenue. Meanwhile Mosaic collection wholesale to Stockmann has increased as new stores in the Russian market were opened in 2011.

OPERATING EXPENSES AND NET LOSS

The Group's gross profit for the first quarter of 2012 amounted to 6,455 thousand euros, that is 564 thousand euros ie. 10% increase year-over-year on a sales area that was 8% smaller on average. Gross profit margin was 51% which is one percentage point higher than in prior year first quarter.

In the first quarter of 2012 distribution expenses decreased by 6% to 6,584 thousand euros. Distribution costs have decreased by 444 thousand euros due to restructuring of retail network in the year of 2011. The average retail system rental area has decreased by 8% in the first quarter of 2012 compared to same period of last year and average number of staff in retail system has decreased by 7%.

The first quarter administrative and general expenses in the amount of 684 thousand euros have decreased by 8% compared to same periood of last year. Most of the 59 thousand euros decrease was achieved due to streamlining management, which shows also in decrease of average number of employees by 9% in the first quarters comparison. Cost control and renting out space previously in own office use has in addition increased Group's rental income. Rent income growth of 58 thousand euros compared to the first quarter of 2011together with administrative and general expense decrease gave a total benefit of 16%.

Other operating income and –expenses for the first quarter of 2012 were 23 thousand euros. Operating expenses and other operating income and –expenses amounted to 7,245 thousand euros, that is 741 thousand euros ie. 9% less than in the first quarter of 2011. Together with the higher gross profit, operating loss totalled to 790 thousand euros, that is 1,305 thousand euros ie. 62% better result than the first quarter of 2011.

The net financial expense in the first quarter of this year amounted to 235 thousand euros compared to 266 thousand in 2011. The net loss in first quarter of 2012 amounted to 1,043 thousand euros that is 1,321 thousand euros, i.e. 56% better result than a year ago.

FINANCIAL POSITION

As at 31 March 2012 inventories totalled 9,146 thousand euros, that is 902 thousand euros less than a year ago. This is partly due to seasonality, in addition collection sales through and inventory turnover has increased.

Baltika financed its activitites as planned from overdraft facilities and borrowings increased to 18,651 thousand euros as at 31 March 2012 by 329 thousand euros compared to year end. Trade and other payables in the amount of 5,557 thousand euros has decreased by 1,228 thousand euros compared to year end and 2,031 thousand euros compared to 31 March 2011. Stable financial position has allowed quick payment of liabilities and efficient management of working capital based on seasonal requirements.

At the end of first quarter, Group's net debt (interest-bearing liabilities less cash and bank balances) was 18,159 thousand euros which was higher than 31 December 2011 by 710 thousand euros and 1,174 thousand euros lower than 31 March 2011. The net debt to equity ratio was 210%.

As at 31 March 2012 Baltika had net assets of 8,657 thousand euros, which is not compliant with the Commercial Code requirement of half of share capital (12,528 thousand euros). Based on the decision taken on annual general meeting of shareholders on 20th of April 2012 the new share capital will amount to 7,159 thousand euros that makes the equity amount required by Commercial Code that Baltika does meet 3,579 thousand euros.

PEOPLE

As at 31 March 2012, Baltika Group employed a total of 1,316 people, that is 47 people less than 31 December 2011 (1,363): 727 (31.12.2011: 765) in the retail system, 421 (31.12.2011: 433) in manufacturing and 168 (31.12.211: 165) at the head office and logistics centre. The period's average number of staff was 1,327 (Q1 2011: 1,400).

Employee remuneration expense for the first quarter of 2012 amounted to 2.5 million euros (Q1 2011: 2.6 million euros). The remuneration of the members of the Supervisory Council and Management Board totalled 0.1 million euros (Q1 2011: 0.1 million euros).

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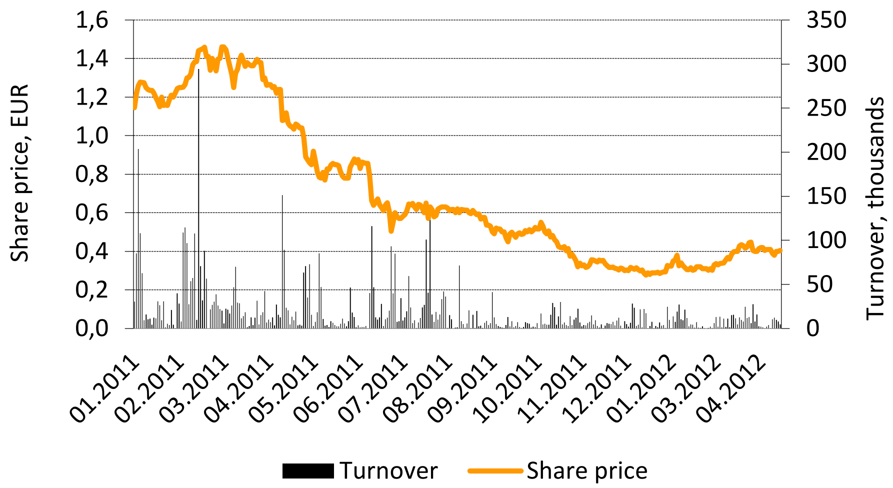
KEY FIGURES OF THE GROUP (1 QUARTER 2012)

	31 March 2012	31 March 2011	+/-
Revenue (EUR thousand)	12,643	11,771	7.4%
Retail sales (EUR thousand)	11,531	10,755	7.2%
Share of retail sales in revenue	91%	91%	
Number of stores	108	116	-6.9%
Sales area at the end of period (sqm)	21,807	23,961	-9.0%
Number of employees (end of period)	1,316	1,418	-7.2%
Gross margin	51.1%	50.0%	
EBITDA (EUR thousand)	-215	-1,431	
EBITDA margin	-1.7%	-12.2%	
Operating margin	-6.2%	-17.8%	
EBT margin	-8.1%	-20.1%	
Net margin	-8.2%	-20.1%	
Current ratio	1.2	1.4	-9.6%
Inventory turnover	5.91	5.08	16.3%
Debt to equity ratio	215.3%	192.9%	
Return on equity	-57.2%	-51.4%	
Return on assets	-15.4%	-15.4%	

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
10 May 2012

Maigi Pärnik-Pernik
Member of the Management Board
10 May 2012

Maire Milder
Member of the Management Board
10 May 2012

Andrew Paterson
Member of the Management Board
10 May 2012

Introduction and photos of Management Board members are available in AS Baltika 2011 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 first quarter and three months of 2012 as presented on pages 10-29.

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. the Group is going concern.

Meelis Milder
Chairman of the Management Board
10 May 2012

Maigi Pärnik-Pernik
Member of the Management Board
10 May 2012

Maire Milder
Member of the Management Board
10 May 2012

Andrew Paterson
Member of the Management Board
10 May 2012

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 March 2012	31 Dec 2011
ASSETS			
Current assets			
Cash and bank	3	482	863
Trade and other receivables	4	1,809	2,189
Inventories	5,13	9,146	10,048
Total current assets		**11,437**	**13,100**
Non-current assets			
Deferred income tax asset		838	838
Other non-current assets	6	753	629
Investment property	7	8,549	8,549
Property, plant and equipment	8	7,678	8,031
Intangible assets	9	3,698	3,665
Total non-current assets		**21,516**	**21,712**
TOTAL ASSETS		**32,953**	**34,812**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	10	3,659	3,178
Trade and other payables	11	5,557	6,785
Total current liabilities		**9,216**	**9,963**
Non-current liabilities			
Borrowings	10	14,992	15,144
Other liabilities	11	88	83
Total non-current liabilities		**15,080**	**15,227**
TOTAL LIABILITIES		**24,296**	**25,190**
EQUITY			
Share capital at par value	12	25,056	25,056
Share premium		89	89
Reserves	12	2,494	2,494
Retained earnings		-17,455	-11,592
Net loss for the period		-1,044	-5,863
Currency translation differences		-649	-727
Total equity attributable to equity holders of the parent		**8,491**	**9,457**
Non-controlling interest		166	165
TOTAL EQUITY		**8,657**	**9,622**
TOTAL LIABILITIES AND EQUITY		**32,953**	**34,812**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q1 2012	Q1 2011
Revenue	13,14	12,643	11,771
Cost of goods sold	15	-6,188	-5,880
Gross profit		**6,455**	**5,891**
Distribution costs	16	-6,584	-7,028
Administrative and general expenses	17	-684	-743
Other operating income	18	33	6
Other operating expenses	19	-10	-221
Operating loss	13	**-790**	**-2,095**
Finance income	20	107	21
Finance costs	20	-342	-287
Loss before income tax		**-1,025**	**-2,362**
Income tax expense		-18	-3
Net loss		**-1,043**	**-2,364**
Loss attributable to:			
Equity holders of the parent company		-1,044	-2,364
Non-controlling interest		1	0
Other comprehensive income (loss)			
Currency translation differences		78	132
Total comprehensive loss		**-965**	**-2,232**
Comprehensive loss attributable to:			
Equity holders of the parent company		-966	-2,232
Non-controlling interest		1	0
Basic earnings per share, EUR	21	-0.03	-0.09
Diluted earnings per share, EUR	21	-0.03	-0.09

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CONSOLIDATED CASH FLOW STATEMENT

	Note	Q1 2012	Q1 2011
Operating activities			
Operating loss		-790	-2,094
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	15-17	505	667
Loss from disposal of PPE		-4	1
Other non-monetary expenses		46	150
Changes in working capital:			
Change in trade and other receivables	4	256	-7
Change in inventories	5	897	594
Change in trade and other payables	11	-1,236	760
Interest paid		-284	-294
Income tax paid		-46	-120
Net cash generated from operating activities		**-656**	**-343**
Investing activities			
Acquisition of property, plant and equipment, intangibles	8,9	-56	-27
Proceeds from disposal of property, plant and equipment		6	0
Net cash used in investing activities		**-50**	**-27**
Financing activities			
Received borrowings	10	0	93
Repayments of borrowings	10	-157	-284
Change in bank overdraft	10	524	33
Repayments of finance lease and other liabilities		-42	-51
Redemption of bonds		0	-1
Net cash generated from financing activities		**325**	**-210**
Effect of exchange gains (losses) on cash and cash equivalents		0	19
Total cash flows		**-381**	**-561**
Cash and cash equivalents at the beginning of the period	3	**863**	**823**
Cash and cash equivalents at the end of the period	3	**482**	**262**
Change in cash and cash equivalents		**-381**	**-561**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent							
	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total	Non-controlling interest	Total equity
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	-2,364	0	-2,364	0	-2,364
Other comprehensive income (loss)	0	0	0	0	132	132	0	132
Total comprehensive income (loss)	0	0	0	-2,364	132	-2,232	0	-2,232
Equity-settled share-based transactions	0	34	0	0	0	34	0	34
Balance as at 31 March 2011	**20,129**	**1,366**	**2,784**	**-13,669**	**-614**	**9,996**	**162**	**10,158**
Balance as at 31 December 2011	**25,056**	**89**	**2,494**	**-17,455**	**-727**	**9,457**	**165**	**9,622**
Profit (loss) for the period	0	0	0	-1,044	0	-1,044	1	-1,043
Other comprehensive income (loss)	0	0	0	0	78	78	0	78
Total comprehensive income (loss)	0	0	0	-1,044	78	-966	1	-965
Balance as at 31 March 2012	**25,056**	**89**	**2,494**	**-18,499**	**-649**	**8,491**	**166**	**8,657**

NOTES TO CONSOLIDATED INTERIM REPORT

NOTE 1 Accounting policies and 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 three months ended 31 March 2012 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 2011, 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 2011. New and revised standards and interpretations effective from 1 January 2012 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 65% (2011 3 months: 68%) of the revenues of the Group and are denominated in LTL (Lithuanian lit), LVL (Latvian lat), UAH (Ukrainian hryvnia), RUB (Russian rouble) and also PLN (Polish zloty) in 2011, 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 in the reporting period were the following: Russian rouble +1.12% (2011: +3.09%), Ukrainian hryvnia +3.56% (2011: +2.15%), Polish zloty -7.27% (2011: +0.27%) and Latvian lat +0.91% (2011: +0.54%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was +4,18% (2011: +1.12%).

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 2012 and 2011. 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 March 2012 and 31 December 2011 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, for new clients prepayments are required and for long-term contractual clients 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.

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At 31 March 2012 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 6) amounted 918 thousand euros (31 December 2011: 795 thousand euros) on a net basis after the allowances.

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

Liquidity risk

Liquidity risk is the potential risk that the Group has limited or insufficient financial (cash) resources to meet the obligations arising from the Group's activities. 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 March 2012

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (Note 10)[2]	18,538	5,614	15,390	21,004
Finance lease liabilities (Note 10)	103	90	18	108
Trade payables (Note 11)	3,181	3 181	0	3,181
Other financial liabilities (Note 10,11)[3]	140	140	0	140
Total	**21,962**	**9,025**	**15,408**	**24,433**

Financial liabilities by maturity at 31 December 2011

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (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**

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

[2]Overdraft facilities are shown under loans payable within 1-5 years based on the contractual date of payment.

[3]Other financial liabilities include accrued expenses in amount of 130 thousand euros (31 December 2011: 119 thousand euros) and component of G-bonds in amount of 10 thousand euros (31 December 2011: 10 thousand euros).

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.

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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 statement of financial position) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated statement of financial position 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 2012 and 2011. The capital to net debt ratio was influenced by the earned comprehensive loss.

Capital to net debt ratio of the Group

	31 March 2012	**31 Dec 2011**
Total borrowings (Note 10)	18,641	18,312
Cash and bank (Note 3)	-482	-863
Net debt	18,159	17,449
Total equity	8,657	9,622
Total capital	26,816	27,071
Total capital to net debt ratio	**68%**	**64%**

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 March 2012 and 31 December 2011. 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.

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NOTE 3 Cash and bank

	31 March 2012	31 Dec 2011
Cash in hand	260	391
Cash at bank and overnight deposits	222	472
Total	**482**	**863**

Cash and bank by currency

	31 March 2012	31 Dec 2011
RUB (Russian rouble)	166	277
EUR (euro)	162	221
LTL (Lithuanian lit)	63	162
UAH (Ukrainian hryvnia)	62	155
LVL (Latvian lat)	29	46
PLN (Polish zloty)	0	2
Total	**482**	**863**

NOTE 4 Trade and other receivables

	31 March 2012	31 Dec 2011
Trade receivables, net	592	533
Other prepaid expenses	652	881
Tax prepayments and tax reclaims, thereof	508	675
Value added tax	486	656
Prepaid income tax	0	14
Other taxes	22	5
Other current receivables	57	100
Total	**1,809**	**2,189**

Trade receivables

	31 March 2012	31 Dec 2011
Trade receivables, gross	1,236	1,203
Allowance for impairment of trade receivables	-644	-670
Trade receivables, net	**592**	**533**

Trade receivables (net) by due date

	31 March 2012	31 Dec 2011
Not due	527	463
Up to 1 month past due	57	35
1-3 months past due	7	23
3-6 months past due	0	3
Over 6 months past due	1	9
Total	**592**	**533**

Trade receivables (net) in denominated currency

	31 March 2012	31 Dec 2011
EUR (euro)	443	358
LVL (Latvian lat)	65	90
LTL (Lithuanian lit)	44	36
RUB (Russian rouble)	40	49
Total	**592**	**533**

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NOTE 5 Inventories

	31 March 2012	31 Dec 2011
Fabrics and accessories	1,514	1,487
Allowance for impairment of fabrics and accessories	-13	-13
Work-in-progress	62	62
Finished goods and goods purchased for resale	7,309	8,798
Allowance for impairment of finished goods and goods purchased for resale	0	-450
Prepayments to suppliers	274	164
Total	**9,146**	**10,048**

NOTE 6 Other non-current assets

	31 March 2012	31 Dec 2011
Non-current lease prepayments	427	367
Other long-term receivables	326	262
Total	**753**	**629**

NOTE 7 Investment property

	2011	2010
Balance as at 1 January	**8,549**	**7,069**
Balance as at 31 March	**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.

NOTE 8 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Pre-payments	Total
31 December 2010						
Acquisition cost	**11,607**	**5,861**	**6,979**	**19**	**13**	**24,478**
Accumulated depreciation	-3,005	-4,445	-4,908	0	0	-12,357
Net book amount	**8,602**	**1,416**	**2,071**	**19**	**13**	**12,121**
Additions	4	18	6	0	1	29
Disposals	0	-11	-3	-2	0	-16
Reclassification	-9	0	17	-8	0	0
Depreciation	-210	-124	-256	0	0	-590
Currency translation differences	-8	5	1	-1	-2	-5
31 March 2011						
Acquisition cost	**11,589**	**5,855**	**6,922**	**8**	**12**	**24,386**
Accumulated depreciation	-3,210	-4,551	-5,086	0	0	-12,847
Net book amount	**8,379**	**1,304**	**1,836**	**8**	**12**	**11,539**

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31 December 2011						
Acquisition cost	**9,231**	**5,633**	**6,691**	**0**	**0**	**21,555**
Accumulated depreciation	-3,360	-4,655	-5,509	0	0	-13,524
Net book amount	**5,871**	**978**	**1,182**	**0**	**0**	**8,031**
Additions	7	9	26	14	0	56
Reclassifications from inventories	0	0	6	0	0	6
Disposals	0	0	-2	0	0	-2
Reclassification	-21	4	17	0	0	0
Depreciation	-163	-88	-179	0	0	-430
Currency translation differences	-5	13	9	0	0	17
31 March 2012						
Acquisition cost	**9,124**	**5,675**	**6,777**	**14**	**0**	**21,590**
Accumulated depreciation	-3,435	-4,759	-5,718	0	0	-13,912
Net book amount	**5,689**	**916**	**1,059**	**14**	**0**	**7,678**

NOTE 9 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
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	3	0	0	0	3
Disposals	-1	0	0	0	-1
Reclassification	13	0	-13	0	0
Amortisation	-76	-8	0	0	-84
Currency translation differences	1	0	0	21	22
31 March 2011					
Acquisition cost	**2,829**	**643**	**10**	**2,069**	**5,551**
Accumulated depreciation	-1,566	-147	0	0	-1,713
Net book amount	**1,263**	**496**	**10**	**2,069**	**3,838**
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**
Amortisation	-71	-8	0	0	-79
Currency translation differences	5	0	0	107	112
31 March 2012					
Acquisition cost	**2,185**	**643**	**10**	**2,325**	**5,163**
Accumulated depreciation	-1,286	-179	0	0	-1,465
Net book amount	**899**	**464**	**10**	**2,325**	**3,698**

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NOTE 10 Borrowings

	31 March 2012	31 Dec 2011
Current borrowings		
Current portion of non-current bank loans	2,563	2,047
Current portion of finance lease liabilities	86	121
Other current loans (Note 22)	1,000	1,000
Convertible bonds	10	10
Total	**3,659**	**3,178**
Non-current borrowings		
Non-current bank loans	14,975	15,119
Non-current finance lease liabilities	17	25
Total	**14,992**	**15,144**
Total borrowings	**18,651**	**18,322**

During the reporting period, the Group made loan repayments in the amount of 157 thousand euros (2011: 284 thousand euros). Loan interest expense of the reporting period amounted to 302 thousand euros (2011: 294 thousand euros). The used limit of the Group´s overdraft facilities with the banks as at 31 March 2012 amounted to 906 thousand euros (31 December 2011: 382 thousand euros).

Interest carrying loans of the Group as at 31 March 2012

	Carrying amount	Average interest rate
Borrowings at floating interest rate (based on 1-month and 6-month Euribor)	17,538	EURIBOR+4.62%
Borrowings at fixed interest rate	1,000	10.00%
Total	**18,538**	

Interest carrying loans of the Group as at 31 December 2011

	Carrying amount	Average interest rate
Borrowings at floating interest rate (based on 1-month and 6-month Euribor)	17,166	EURIBOR+4.60%
Liability component of preference shares	1,000	10.00%
Total	**18,166**	

NOTE 11 Trade and other payables

	31 March 2012	31 Dec 2011
Current liabilities		
Trade payables	3,181	3,945
Tax liabilities, thereof	982	1,567
Personal income tax	178	177
Social security taxes and unemployment insurance premium	391	443
Value added tax	391	849
Corporate income tax liability	9	51
Other taxes	13	47
Payables to employees[1]	1,002	921
Other accrued expenses[2]	130	119
Customer prepayments	62	26
Other current payables	200	207
Total	**5,557**	**6,785**

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Non-current liabilities	31 March 2012	31 Dec 2011
Other liabilities[3]	88	83

[1]Payables to employees consist of accrued wages, salaries and vacation accrual.
[2]Accrued expenses include interest payable in the amount of 46 thousand euros (31 December 2011: 21 thousand euros).
[3]Other non-current liabilities consist of deferred income.

Trade payables in denominated currency

	31 March 2012	31 Dec 2011
EUR (euro)	1,938	2,486
USD (US dollar)	969	1,270
RUB (Russian rouble)	110	53
PLN (Polish zloty)	102	95
LTL (Lithuanian lit)	95	75
LVL (Latvian lat)	50	56
Other currencies	47	29
Total	**3,311**	**4,064**

NOTE 12 Equity

Share capital and reserves

	31 March 2012	31 Dec 2011
Share capital	25,056	25,056
Number of shares (pcs)	35,794,850	35,794,850
Nominal value of share (EUR)	0.70	0.70
Statutory reserve	652	652
Revaluation surplus	1,592	1,592
Other reserves (Note 22)	250	250

At the balance-sheet date, 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.

Change in the number of shares

	Issue	Number of shares
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**
Number of shares as at 31 March 2012		**35,794,850**

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Shareholders as at 31 March 2012

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. Clearstream Banking Luxembourg S.A. clients	6,446,791	18.01%
3. BMIG OÜ	4,750,033	13.27%
4. Skandinaviska Enskilda Banken Ab clients	3,581,060	10.00%
5. Svenska Handelsbanken clients	1,765,000	4.93%
6. Members of management and supervisory boards and persons related to them		
Meelis Milder	743,531	2.08%
Maire Milder	316,083	0.88%
Andrew Paterson	11,000	0.03%
Persons related to members of Management	8,100	0.02%
7. Other shareholders	10,582,338	29.57%
Total	**35,794,850**	**100.00%**

Shareholders as at 31 December 2011

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. E. Miroglio S.A.	4,968,330	13.88%
3. BMIG OÜ	4,750,033	13.27%
4. Skandinaviska Enskilda Banken Ab clients	3,591,060	10.03%
5. Svenska Handelsbanken clients	1,895,000	5.29%
6. 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%
Persons related to members of Management	8,100	0.02%
7. Other shareholders	11,937,994	33.36%
Total	**35,794,850**	**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.

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The segment information provided to the Management Board for the reportable segments for the period ended at 31 March 2012 and at 31 March 2011 is as follows

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total
3m 2012 and as at 31 March 2012						
Revenue (from external customers)	7,516	4,015	0	944	168	12,643
Segment operating profit (loss)	787	-536	0	266	155	672
Incl. depreciation and amortisation	-223	-117	0	0	0	-340
Inventories of segments	3,212	1,791	0	0	0	5,003
3m 2011 and as at 31 March 2011						
Revenue (from external customers)	6,416	4,037	302	906	110	11,771
Segment operating profit (loss)[2]	254	-593	-114	207	99	-147
Incl. depreciation and amortisation	-266	-189	-28	-59	0	-542
Inventories of segments	3,136	1,845	138	0	0	5,119

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

[2]The segment profit is the segment operating profit, excluding other operating expenses and income. Due to change in management reporting how the expenses are allocated, the comparative numbers of 2011 first quarter segment operating profit (loss) were changed accordingly.

Reconciliation of segment profit to consolidated operating profit

	3M 2012	3M 2011
Total segment profit (loss)	672	-147
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-801	-990
Administrative and general expenses	-684	-743
Other operating income (expenses), net	23	-215
Operating loss	**-790**	**-2,095**

[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 March 2012	31 Dec 2011	31 March 2011
Total inventories of segments	5,003	5,707	5,119
Inventories in Parent and production companies	4,143	4,341	5,090
Inventories on statement of financial position	**9,146**	**10,048**	**10,209**

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NOTE 14 Revenue

	3m 2012	3m 2011
Sale of goods	12,377	11,600
Lease revenue	168	110
Sale of sewing services	77	54
Other	21	7
Total	**12,643**	**11,771**

NOTE 15 Cost of goods sold

	3m 2012	3m 2011
Materials and supplies	5,603	5,083
Payroll costs in production	707	787
Operating lease expenses	158	171
Other production costs	116	96
Depreciation of assets used in production (Note 8,9)	54	58
Change in allowance for inventories	-450	-320
Change in inventories	0	5
Total	**6,188**	**5,880**

NOTE 16 Distribution costs

	3m 2012	3m 2011
Operating lease expenses	2,497	2,768
Payroll costs	2,396	2,441
Depreciation and amortisation (Note 8,9)	373	491
Advertising expenses	271	311
Fuel, heating and electricity costs	196	190
Consultation and management fees	107	90
Fees for card payments	91	85
Municipal services and security expenses	74	71
Travel expenses	68	48
Freight costs	61	62
Information technology expenses	57	63
Renovation expenses of retail outlets	39	34
Communication expenses	33	45
Training expenses	23	14
Bank fees	20	27
Packaging costs	17	21
Other sales expenses[1]	261	267
Total	**6,584**	**7,028**

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

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NOTE 17 Administrative and general expenses

	3m 2012	3m 2011
Payroll costs[1]	303	332
Depreciation and amortisation (Note 8,9)	78	95
Bank fees	72	74
Information technology expenses	66	64
Fuel, heating and electricity expenses	26	27
Sponsorship	7	9
Operating lease expenses	7	13
Training expenses	6	13
Communication expenses	5	10
Municipal services and security expenses	5	5
Management and consulting fees	4	7
Travel expenses	1	3
Other administrative expenses[2]	104	91
Total	**684**	**743**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount 134 thousand euros in 2011.

[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

	3m 2012	3m 2011
Foreign exchange income	25	0
Gain from sale of non-current assets	4	0
Other operating income	4	6
Total	**33**	**6**

NOTE 19 Other operating expenses

	3m 2012	3m 2011
Foreign exchange losses	0	189
Fines, penalties and tax interest	5	16
Representation costs	1	1
Other operating expenses	4	15
Total	**10**	**221**

NOTE 20 Finance income and costs

	3m 2012	3m 2011
Interest costs	-305	-286
Foreign exchange income (losses)	107	20
Other finance income	0	1
Other finance costs	-37	-1
Total	**-235**	**-266**

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NOTE 21 Earnings per share

Basic earnings per share

		3m 2012	3m 2011
Weighted average number of shares	pcs	35,794,850	27,494,850
Net profit (loss) attributable to equity holders of the parent		-1,044	-2,346
Basic earnings per share	EUR	**-0.03**	**-0.09**

Diluted earnings per share

		3m 2012	3m 2011
Weighted average number of shares	pcs	35,794,850	27,494,850
Net profit (loss) attributable to equity holders of the parent		-1,044	-2,346
Diluted earnings per share	EUR	**-0.03**	**-0.09**

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to earnings as at 31 March 2012 and 31 December 2011, 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 three months of 2012 was 0.34 euros (2011: 1.31 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 (Note 12);
- members of 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

	3m 2012	3m 2011
	Purchases	Purchases
Goods	0	120
Services	50	55
Total	**50**	**175**

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

Balances with related parties

	31 March 2012	31 Dec 2011
Other current loans and interests (Note 10, 11)	1,028	1,003
Trade payables	98	233
Balance from equity instrument (Note 12)	250	250
Total	**1,376**	**1,486**

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All transactions in 2012 as well as in 2011 and balances with related parties as at 31 March 2012 and 31 December 2011 were with entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members. As at 31 March 2012 and 31 December 2011 the balances from current loans, interests and issuance of equity instrument are with counterparty, who is also an owner that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	3m 2012	3m 2011
Salaries of the members of the Management Board	59	72
Remuneration of the members of the Supervisory Council	7	8
Total	**66**	**80**

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 March 2012	Number of convertible bonds 31 Dec 2011
G-Bond	30.06.2009	01.07.2012-31.12.2012	1,842,500	1,842,500

NOTE 23 Net asset position and events after the balance sheet date

As at 31 March 2012 the Group's net assets amounted to 8,657 thousand euros. AS Baltika is not compliant with Commercial Code as net assets are not half of share capital of 25,056 thousand euros. On 20 April 2012 the annual general meeting of shareholders decided to decrease the nominal value of the share to 0.2 euros and also to decrease share capital to 7,159 thousand euros, which will ensure compliance with Commercial Code.

The annual general meeting of shareholders also decided on 20 April 2012 to issue two types of convertible bonds. The meeting decided to issue 5 000 000 convertible bonds (H-bond) with the nominal value 0.3 euros – each bond gives its owner the right to subscribe one share, the share subscription period is from 11 May 2013 until 10 May 2014. The annual interest of bonds is 7.5%. The general meeting of shareholders also decided to issue 2 350 000 convertible bonds (I-bond) with the nominal value of 0.01 euros to the management of Baltika Group companies – each bond gives its owner the right to subscribe one share of the Company, the share subscription period is from 1 July 2015 until 31 December 2015.

NOTE 24 Members of Supervisory Council

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

According to the decision of general meeting of shareholders on 20 April 2012 the new members of the Supervisory Council are: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaako Sakari Mikael Salmelin, Valdo Kalm.

Introduction and photos of Supervisory Council members are available on homepage www.baltikagroup.com.