AS BALTIKA

Consolidated interim report for the fourth quarter and 12 months of 2012

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 2012 – 31 December 2012
Reporting period	1 January 2012 – 31 December 2012

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Baltika Group Fourth quarter and 12 months of 2012 consolidated interim report (in thousands euros, unaudited)

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, Bastion 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 December 2012, the Group employed 1,288 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 at 31 Dec 2012	Holding 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.[2]	Poland	Retail	-	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
AS Virulane[3]	Estonia	Production	-	93,8%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

[1]Interest through a subsidiary.

[2]The bankruptcy of Baltika Poland Sp.z.o.o was declared on 10. August 2012.

[3]In May 2012 Baltika AS acquired non-controlling interest of Virulane AS (6,2%) and became 100% shareholder of Virulane AS. In June 2012 a merger agreement between Virulane AS and Baltika AS was signed, date of merger is 1 January 2012.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, FOURTH QUARTER AND YEAR 2012

Baltika ended the fourth quarter with 1,294 thousand euros profit before tax and the net profit was 1,075 thousand euros. The year 2012 profit before tax was 1,056 thousand euros and net profit 805 thousand euros. Baltika exceeded the financial targets set for the year 2012, finishing the year with 3,725 thousand euros EBITDA, which is 24% higher than planned 3,000 thousand euros.

Performance exceeded the target owing to strong growth in sales efficiency (14% against the projected 10%) and a marked improvement in the gross margin. Gross margin in 2012 was 54.5%, increasing year over year 1.4 percentage points. Solid sales results and the rise in the gross margin were underpinned by sales growth in the Baltic countries and Russia. The best results were achieved in Latvia and Russia where sales per square metre grew by 21% and 15% respectively. Another contributing factor continued to be effective cost control: the ratio of operating expenses to revenue improved by 5 percentage points, 1 percentage point more than targeted.

The year 2012 was pivotal in both returning to profit and strengthening the financial position. By divesting real estate, considerably reducing the loan burden and improving its investment capabilities, Baltika has created a solid basis and opened up new opportunities for future development.

2012 fourth quarter highlights

- On 29 November 2012, Baltika signed an agreement for the purchase of the Bastion trademark and the acquisition of retail stores operated under the Bastion trade name. Six Bastion stores in Estonia were taken over from OÜ Bastion by Baltika's subsidiary OÜ Baltman and one Bastion store in Latvia was taken over by Baltika's subsidiary SIA Baltika Latvija. All seven stores have been successfully integrated into Baltika's retail system and the figures for 2012 include the first Bastion sales within Baltika Group. By adding Bastion to its brand portfolio the Group can expand its target customer base, offer a wider product range and increase its market share in the Baltics. Baltika believes that Bastion has strong retail and wholesale potential in the Group's home market, the Baltics, as well as in Scandinavia and Eastern Europe.

- On 28 December 2012, Baltika launched a revamped Monton concept flagship store in the Piterland shopping centre in St Petersburg. Following this, in February a revamped Monton concept flagship store was opened in Tallinn and in Riga and in March a Monton concept flagship store will be opened in Vilnius.

- As agreed in 2012, on 28 January 2013 Pille Põldsam joined Baltman OÜ Management Board. Pille Põldsam has gained experience at AS Stockmann group – last position as the area manager of both Seppälä's Estonian region and Baltic and Ukrainian region. In Baltika Group, she will deal with the Estonian market, being responsible for setting and meeting the retail sales targets, organising the work of retail operations and managing the sales and service teams.

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Objectives for 2013

Baltika's goals for 2013 are business expansion and profitable growth. To achieve this, the Group will continue to implement its investment plan in 2013. In line with its unveiled investment plan, in the next few years the Group intends to open 25 new stores and to invest 5,000 euros in the retail system of which around 3,000 euros will be invested in 2013. Renovation of almost 20 stores and the launch of around ten new stores, primarily in Latvia, Russia and Ukraine will be made in 2013. According to the investment plan, the Group will also continue to launch new-concept Monton stores and in the second half of 2013 will open the first new-concept Mosaic stores.

Priorities of 2013 include developing international competitiveness of all Group brands. The Group will also continue to develop its additional sales channels and grow their sales: in 2013 special attention will be paid to increasing wholesale, franchise and e-store sales. In addition, to tap its extensive experience and strong retail competencies, the Group is considering the possibility of entering into franchising agreements for the sale of new brands in its current markets.

Management's targets for 2013 are to increase total sales over 10% and to at least double the Group's net profit. The targets are in line with the budget approved by the company's Supervisory Council on 13 February 2013.

REVENUE

Baltika revenue grew in both fourth quarter and in 2012 total by 5%. Fourth quarter revenue was 16,188 thousand euros, that signifies increase of 703 thousand euros although the rent income decreased due to the sale of Baltika Quarter property. The growth was mainly derived from retail network, although in both fourth quarter and year 2012 total revenue from other channels also grew.

Revenue by activity

EUR thousand	Q4 2012	Q4 2011	+/-	12m 2012	12m 2011	+/-
Retail	15,528	14,781	5%	52,665	50,072	5%
Wholesale and e-com	588	505	16%	3,019	2,704	12%
Rent	2	133	-98%	403	483	-17%
Sewing services	30	40	-25%	130	101	29%
Other	40	25	64%	115	49	137%
Total	**16 188**	**15 485**	**5%**	**56 332**	**53 409**	**5%**

Retail

Baltika retail revenue in 2012 was 52,665 thousand euros, that is 5% i.e. 2,593 thousand euros more than in the previous year. Highest sales revenue growth was achieved in Latvia, Estonia and Lithuania. Baltic countries have also increased its share from total, 2012 retail sales in Baltic countries was 69% compared to 59% in year 2011.

Retail sales by market

EUR thousands	Q4 2012	Q4 2011	+/-	Share	12m 2012	12m 2011	+/-	Share
Estonia	5,002	4,550	10%	32%	16,281	14,676	11%	31%
Lithuania	3,365	2,978	13%	22%	10,895	9,919	10%	21%
Russia	2,634	2,845	-7%	17%	9,826	10,502	-6%	19%
Latvia	2,699	2,446	10%	17%	8,922	7,613	17%	17%
Ukraine	1,828	1,961	-7%	12%	6,741	6,624	2%	13%
Poland	0	0	0%	0%	0	738	-100%	0%
Total	**15 528**	**14 781**	**5%**	**100%**	**52 665**	**50 072**	**5%**	**100%**

Stores and sales area

With the addition of shops operating under Bastion trade name (six in Estonia and one in Latvia) the number of stores increased respectively. In addition a store with new Monton concept was opened in Piterland shopping centre in St. Petersburg, Russia.

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Stores by market

	31 Dec 2012	31 Dec 2011	Area change
Estonia	36	29	12%
Lithuania	27	29	-1%
Russia	18	23	-19%
Latvia	16	16	-4%
Ukraine	16	18	-14%
Total stores	**113**	**115**	
Total sales area, sqm	**22,210**	**23,111**	**-4%**

Sales per square metre that shows retail network efficiency continued to grow in the fourth quarter of 2012 in all of the active markets. Estonian retail sales efficiency was impacted with the addition of Bastion – without Bastion the efficiency growth would have been 10%. Latvia and Russia were the main ones showing very strong results, with 21% and 15% respectively in 2012. Sales efficiency in Russia is approximating that of Baltika's best – Estonian market.

Sales efficiency by market (sales per sqm in a month, EUR)

	Q4 2012	Q4 2011	+/-	12m 2012	12m 2011	+/-
Estonia	279	268	4%	234	213	10%
Lithuania	201	178	13%	163	148	10%
Russia	229	194	18%	208	181	15%
Latvia	277	238	16%	229	190	21%
Ukraine	199	189	5%	173	165	5%
Poland	0	0	0%	0	99	-100%
Total	**239**	**214**	**12%**	**201**	**178**	**14%**

[1] In local currency, fourth quarter sales efficiency grew by 14% in Russia and 4% in Ukraine.

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Brands

All brands continued to show sales growth in the fourth quarter. The leading brand Monton sales growth was as low as 1% in the fourth quarter mainly due to decrease of average operating area in the same period by 4%. Worth bringing out is Mosaic fourth quarter results with 22% sales efficiency increase. As the formal- and special occasion collections met the client expectations sales results were above average particularly in Lithuania.

Retail revenue by brand

EUR thousands	Q4 2012	Q4 2011	+/-	Share	12m 2012	12m 2011	+/-	Share
Monton	7,900	7,827	1%	51%	27,005	26,584	2%	51%
Mosaic	4,663	4,384	6%	30%	16,270	15,485	5%	31%
Baltman	1,310	1,235	6%	8%	4,613	4,003	15%	9%
Ivo Nikkolo	1,330	1,243	7%	9%	4,285	3,859	11%	8%
Other*	325	92	253%	2%	492	141	249%	1%
Total	**15,528**	**14,781**	**5%**	**100%**	**52,665**	**50,072**	**5%**	**100%**

*Other includes complementary brands like Stones, JAG etc sales and in December Bastion.

Baltman continued to show good results in the fourth quarter with sales efficiency increase of 13%. Baltman design is also worn by Estonian football team, who received in line with continued cooperation in the fourth quarter high-quality special order coats.

Sales efficiency and change in average sales area by brand (sales per sqm in a month, EUR)

	Q4 2012	Q4 2011	+/-	Average area change	12m 2012	12m 2011	+/-	Average area change
Monton	218	208	5%	-4%	188	168	12%	-9%
Mosaic	224	183	22%	-13%	188	161	17%	-10%
Baltman	355	320	11%	-5%	304	275	10%	4%
Ivo Nikkolo	379	355	7%	0%	302	289	5%	6%
Total retail	**239**	**214**	**12%**	**-6%**	**201**	**178**	**14%**	**-8%**

Wholesale and e-com

Sales results of wholesale and e-com were 588 thousand euros in the fourth quarter, that results in 2012 total of 3,019 thousand euros, an increase of 12% compared to previous year.
Wholesale fourth quarter increase comes mainly from growth in sale of Baltman products. In addition cooperation with new clients in Russia has started and with the target to increase Mosaic wholesale to Finland, brand showroom was opened in Helsinki. These projects show results in the second half of year 2013.

OPERATING EXPENSES AND NET PROFIT

Companies gross margin in the fourth quarter of 2012 was 56% compared to that of 55% in prior year. Year total improvement was 1.4 percentage points and the group earned 30,717 thousand euros gross profit. 2012 gross profit increased by 2,350 thousand euros i.e. 8% and that in spite of 8% lower operating area.

Distribution expenses increased in the fourth quarter compared to previous year by 209 thousand euros due to bonus paid for good results. The ratio of distribution expense to sales continued to improve – 43% in the fourth quarter that is 1 percentage point better than that of same period in prior year. The year total result was a cost efficiency improvement by 4 percentage points: distribution expense to revenue was 47% compared to prior year 51%.

The general and administrative expense remained under strong control. While the expense was on the same level as prior year, it included 94 thousand euros rent expense due to the sale of Baltika Quarter. Due to distribution and administrative expense decrease group achieved the target to decrease operating expenses to revenue by at least 4 percentage points. 2012 year total ratio of 51% was even 5 percentage points better than that of prior year.

Other net operating income- and expense was 144 thousand euros in the fourth quarter, which resulted in operating profit of 1,468 thousand euros that is 2,992 thousand euros better than that of the same period in prior year.

With the decrease of borrowings in the third quarter the interest expense has continued to be significantly lower, which results in net financial expense in the fourth quarter of 174 thousand euros, that is 100 thousand euros lower than that of same period in prior year.

Baltika Group and most of its companies made profit in the year 2012. Accordingly tax expense in the amount of 219 thousand euros was recognized, which is mainly non-pecuniary as the deferred tax assets from previous losses can be used at first.

Baltika ended the fourth quarter with 1,075 thousand euros net profit and concluded also the year total with a profit - 805 thousand euros.

FINANCIAL POSITION

As at 31 December 2012 Group inventories totaled 11,471 thousand euros, that is 1,423 thousand euros more than at the end of 2011. Increase includes that of finished goods and goods purchased for resale in the amount of 532 thousand euros i.e. 6% (due to general increase in volume and addition of Bastion inventories). Main increase comes from fabrics and accessories, that has increased by 807 thousand euros compared to prior year end. Required materials have been purchased earlier to ensure effective production and increase of own production share.

Fixed assets amounted to 6,406 thousand euros as at 31 December, which signifies an increase of 660 thousand euros compared to 30 September. In addition to the increase of intangibles due to acquisition of Bastion trademark investment has been made into retail network in the amount of 366 thousand euros in the fourth quarter.

As at 31 December Group's net debt (interest-bearing liabilities less cash and bank balances) was 4,193 thousand euros, which has decreased by 13,256 thousand euros. The Group's net debt to equity ratio as at 31 December was 41% (31. December 2011: 181%).

Baltika made in monetary terms from operating activities 2,143 thousand euros, that is 1,425 thousand euros more than in the same period last year. Investments into own retail network have been actively made (fixed assets purchase in fourth quarter 366 thousand euros). In accordance with the agreement made in the third quarter 1,000 thousand euros investment loan was received in the fourth quarter. Meanwhile 1,993 thousand euros loan repayments were made. As a result the year end cash balance amounted to 2,078 thousand euros, which provides the means to realise investment plan.

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PEOPLE

As at 31 December 2012, Baltika Group employed a total of 1,288 people that is 75 people less than 31 December 2011 (1,363): 709 (31.12.2011: 765) in the retail system, 394 (31.12.2011: 433) in manufacturing and 185 (31.12.211: 165) at the head office and logistics centre. The 2012 yearly average number of staff was 1,288 (2011: 1,405).

Related to the Bastion transaction new employees joined Baltika Group in December to both head office for product creation (6 employees) and retail (25 employees).

Kati Kusmin joined the board 1 October 2012 as a member in charge of the Group's sales and marketing division.

Employee remuneration expense in 2012 amounted to 10.6 million euros (2011: 10.5 million euros). The accrued remuneration with taxes, including performance based fee, of the members of the Supervisory Council and Management Board totalled 367 thousand euros (2011: 333 thousand euros).

KEY FIGURES OF THE GROUP (IV QUARTER AND YEAR 2012)

	Q4 2012	Q4 2011	Q4 2010	Q4 2009
Revenue (EUR thousand)	16,188	15,484	15,084	14,060
Retail sales (EUR thousand)	15,528	14,781	14,329	13,409
Share of retail sales in revenue	96%	95%	95%	95%
Gross margin	56.1%	54.8%	55.1%	51.2%
EBITDA (EUR thousand)	1,874	-345	661	-1,912
EBITDA margin	11.6%	-2.2%	4.4%	-13.6%
Operating margin	9.1%	-9.8%	-3.1%	-19.5%
EBT margin	8.0%	-11.9%	-6.3%	-21.5%
Net margin	6.6%	-12.1%	-8.5%	-15.6%

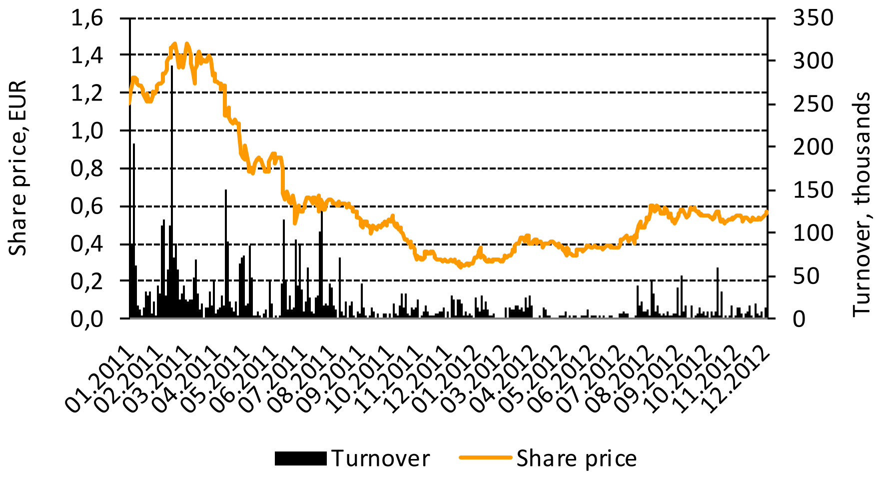
	12M and 31 Dec 2012	12M and 31 Dec 2011	12M and 31 Dec 2010	12M and 31 Dec 2009
Revenue (EUR thousand)	56,332	53,409	52,207	56,253
Retail sales (EUR thousand)	52,665	50,072	48,643	51,710
Share of retail sales in revenue	93%	94%	93%	92%
Number of stores	113	115	120	133
Sales area at the end of period (sqm)	22,210	23,111	24,424	26,900
Number of employees (end of period)	1,288	1,363	1,419	1,697
Gross margin	54.5%	53.1%	51.8%	48.0%
EBITDA (EUR thousand)	3,725	-1,377	-1,242	-6,759
EBITDA margin	6.6%	-2.6%	-2.4%	-12.0%
Operating margin	3.5%	-8.3%	-9.0%	-17.6%
EBT margin	1.9%	-10.8%	-11.3%	-19.6%
Net margin	1.4%	-11.0%	-12.1%	-18.2%
Current ratio	1.8	1.3	1.6	0.9
Inventory turnover	5.22	4.54	4.74	3.77
Debt to equity ratio	61.6%	190.3%	160.4%	186.3%
Return on equity	8.9%	-54.8%	-52.6%	-73.8%
Return on assets	2.8%	-15.1%	-14.9%	-21.2%

Definitions of key ratios

EBITDA = Operating profit-amortisation,depreciation and loss from disposal of fixed assets
EBITDA margin = EBITDA/Revenue
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
27 February 2013

Maigi Pärnik-Pernik
Member of the Management Board
27 February 2013

Maire Milder
Member of the Management Board
27 February 2013

Andrew J. D. Paterson
Member of the Management Board
27 February 2013

Kati Kusmin
Member of the Management Board
27 February 2013

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 2012 as presented on pages 12-33.

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
27 February 2013

Maigi Pärnik-Pernik
Member of the Management Board
27 February 2013

Maire Milder
Member of the Management Board
27 February 2013

Andrew J. D. Paterson
Member of the Management Board
27 February 2013

Kati Kusmin
Member of the Management Board
27 February 2013

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Current assets			
Cash and bank	3	2,078	863
Trade and other receivables	4	1,836	2,189
Inventories	5,13	11,471	10,048
Total current assets		**15,385**	**13,100**
Non-current assets			
Deferred income tax asset		637	838
Other non-current assets	6	1,088	629
Investment property	7	0	8,549
Property, plant and equipment	8	2,256	8,031
Intangible assets	9	4,150	3,665
Total non-current assets		**8,131**	**21,712**
TOTAL ASSETS		**23,516**	**34,812**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	10	1,598	3,178
Trade and other payables	11	7,005	6,785
Total current liabilities		**8,603**	**9,963**
Non-current liabilities			
Borrowings	10	4,702	15,144
Other liabilities	11	25	83
Total non-current liabilities		**4,727**	**15,227**
TOTAL LIABILITIES		**13,330**	**25,190**
EQUITY			
Share capital at par value	12	7,159	25,056
Share premium		63	89
Reserves	12	1,182	2,494
Retained earnings		1,667	-11,592
Net profit (loss) for the period		804	-5,863
Currency translation differences		-689	-727
Total equity attributable to equity holders of the parent		**10,186**	**9,457**
Non-controlling interest		0	165
TOTAL EQUITY		**10,186**	**9,622**
TOTAL LIABILITIES AND EQUITY		**23,516**	**34,812**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q4 2012	Q4 2011	2012	2011
Revenue	13,14	16,188	15,485	56,332	53,409
Cost of goods sold	15	-7,109	-7,001	-25,615	-25,042
Gross profit		**9,079**	**8,484**	**30,717**	**28,367**
Distribution costs	16	-7,021	-6,812	-26,193	-27,095
Administrative and general expenses	17	-734	-742	-2,722	-2,864
Other operating income	18	285	36	341	59
Other operating expenses	18	-141	-2,490	-184	-2,917
Operating profit (loss)		**1,468**	**-1,524**	**1,959**	**-4,450**
Finance income	19	0	2	61	3
Finance costs	19	-174	-314	-964	-1,344
Profit (loss) before income tax		**1,294**	**-1,836**	**1,056**	**-5,791**
Income tax expense		-219	-44	-251	-69
Net profit (loss)		**1,075**	**-1,880**	**805**	**-5,860**
Profit (loss) attributable to:					
Equity holders of the parent company		1,075	-1,883	804	-5,863
Non-controlling interest		0	3	1	3
Other comprehensive income (loss)					
Currency translation differences		26	-30	38	20
Total comprehensive income (loss)		**1,101**	**-1,910**	**843**	**-5,840**
Comprehensive income (loss) attributable to:					
Equity holders of the parent company		1,101	-1,913	842	-5,843
Non-controlling interest		0	3	1	3
Basic earnings per share, EUR	20	0.03	-0.05	0.02	-0.19
Diluted earnings per share, EUR	20	0.03	-0.05	0.02	-0.19

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CONSOLIDATED CASH FLOW STATEMENT

	Note	Q4 2012	Q4 2011	2012	2011
Operating activities					
Operating profit (loss)		1,468	-1,524	1,959	-4,450
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	15-17	397	541	1,715	2,422
Loss from disposal of PPE		10	100	34	160
Revaluation of investment property	7	0	500	0	500
Impairment of trade receivables	18	0	699	0	699
Change in cost price estimates of finished goods and purchased for sale	18	0	1,176	0	1,176
Other non-monetary expenses		29	-166	94	29
Changes in working capital:					
Change in trade and other receivables	4	793	373	445	174
Change in inventories	5	703	2,446	-1,096	-420
Change in trade and other payables	11	-1,134	-3,127	-899	-221
Interest paid		-96	-301	-826	-1,239
Income tax paid		-27	1	-89	-143
Net cash generated from operating activities		**2,143**	**718**	**1,337**	**-1,313**
Investing activities					
Acquisition of property, plant and equipment, intangibles	8, 9	-366	-18	-715	-137
Proceeds from disposal of PPE, investment property		60	69	73	71
Acquisition of non-controlling interest		0	0	-91	0
Net cash used in investing activities		**-306**	**51**	**-733**	**-66**
Financing activities					
Received borrowings	10	1,000	1,000	2,000	2,193
Repayments of borrowings	10	-447	-292	-1,091	-2,336
Change in bank overdraft	10	-1,546	-1,061	-382	-1,150
Repayments of finance lease and other liabilities		-29	-50	-131	-218
Receipts from contribution to share capital		0	0	0	3,010
Dividend paid for preference shares		0	0	0	-49
Proceeds from bonds issue		0	0	212	0
Redemption of bonds		0	0	0	-1
Net cash used in financing activities		**-1,022**	**-403**	**608**	**1,449**
Effect of exchange gains (losses) on cash and cash equivalents		3	63	3	-30
Total cash flows		**818**	**429**	**1,215**	**40**
Cash and cash equivalents at the beginning of the period	3	**1,260**	**434**	**863**	**823**
Cash and cash equivalents at the end of the period	3	**2,078**	**863**	**2,078**	**863**
Change in cash and cash equivalents		**818**	**429**	**1,215**	**40**

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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 Dec 2010	**20,129**	**1,332**	**2,784**	**-11,305**	**-747**	**12,194**	**162**	**12,356**
Loss for the period	0	0	0	-5,863	0	-5,863	3	-5,860
Other comprehensive income	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 (Note 17)	0	134	0	0	0	134	0	134
Equity instrument (Note 12)	0	0	250	0	0	250	0	250
Increase of share capital (Note 12)	3,010	0	0	-287	0	2,723	0	2,723
Conversion of share capital to euros (Note 12)	1,917	-1,377	-540	0	0	0	0	0
Balance as at 31 Dec 2011	**25,056**	**89**	**2,494**	**-17,455**	**-727**	**9,457**	**165**	**9,622**
Profit for the period	0	0	0	804	0	804	1	805
Other comprehensive income	0	0	0	0	38	38	0	38
Total comprehensive income	0	0	0	804	38	842	1	843
Allocation of retained earnings (Note 12)	0	-89	-651	740	0	0	0	0
Decrease of the nominal value of share (Note 12)	-17,897	0	1,182	16,715	0	0	0	0
Equity-settled share-based transactions (Note 17)	0	63	0	0	0	63	0	63
Equity instrument classification to liability (Note 12)	0	0	-250	0	0	-250	0	-250
Acquisition of non-controlling interest (Note 22)	0	0	0	75	0	75	-166	-91
Sale of investment property: revaluation reserve (Note12)	0	0	-1,592	1,592	0	0	0	0
Balance as at 31 Dec 2012	**7,159**	**63**	**1,182**	**2,471**	**-689**	**10,186**	**0**	**10,186**

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, Bastion 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 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 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 input 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. Group's Parent company considers all the risks as significant risks for the Group.

The basis for risk management in 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: 66%) 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 are acquired from European Union, goods purchased for resale outside European Union. The major foreign currencies for purchases are EUR (euro) and 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 +2.34% (2011: -1.54%), Ukrainian hryvnia +7.60%

(2011: -5.54%) and Latvian lat +1.27% (2011: +0.34%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was +7.70% (2011: -5.00%).

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, except in the case of devaluation. 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.

Majority non-current borrowings at 31 December 2012 and 31 December 2011 were subject to a floating interest rate based on Euribor, which is fixed every one or six months. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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

Price risk

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

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Cash and cash equivalents

For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted for operations in the Baltic and Central European region as long-term counterparties. In some cases, mostly for Eastern Europe, the "B" rating is also considered acceptable.

Trade receivables

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.

At 31 December 2012 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 6) amounted 1,307 thousand euros (31 December 2011: 795 thousand euros) on a net basis after the allowances.

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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 between banks 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, bond issues, monitoring the terms of receivables and purchase contracts. Group´s 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 2012

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 10)[2]	4,735	1,956	3,484	5,440
Finance lease liabilities (Note 10)	36	25	13	38
Convertible bonds (Note 10)	1,529	117	1,636	1,753
Trade payables (Note 11)	4,162	4,162	0	4,162
Other financial liabilities (Note 11)[3]	91	91	0	91
Total	**10,553**	**6,239**	**5,245**	**11,484**

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
Convertible bonds (Note 10)	10	10	0	10
Trade payables (Note 11)	3,945	3,945	0	3,945
Other financial liabilities (Note 11)[3]	119	119	0	119
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] Used overdraft facilities are shown under loans payable within 1-5 years based on the contractual date of payment.

[3] Other financial liabilities include accrued interest in the amount of 79 thousand euros (31 December 2011: 21 thousand euros) and accrued expenses in amount of 12 thousand euros (31 December 2011: 98 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 material-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 goal 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. In 2012 goal was achieved due to significant reduction in borrowings and reaching profitability.

Capital to net debt ratio of the Group

	31 Dec 2012	**31 Dec 2011**
Total interest carrying borrowings (Note 10)	6,271	18,312
Cash and bank (Note 3)	-2,078	-863
Net debt	4,193	17,449
Total equity	10,186	9,622
Total capital	14,379	27,071
Total capital to net debt ratio	**29%**	**64%**

Fair value

The Group estimates that the fair values of the assets and liabilities measured in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 December 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 Dec 2012	31 Dec 2011
Cash on hand	415	391
Cash at bank and overnight deposits	1,663	472
Total	**2,078**	**863**

Cash and bank by currency

	31 Dec 2012	31 Dec 2011
EUR (euro)	1,198	221
RUB (Russian rouble)	510	277
UAH (Ukrainian hryvnia)	144	155
LVL (Latvian lat)	123	46
LTL (Lithuanian lit)	103	162
PLN (Polish zloty)	0	2
Total	**2,078**	**863**

NOTE 4 Trade and other receivables

	31 Dec 2012	31 Dec 2011
Trade receivables, net	680	533
Other prepaid expenses	763	881
Tax prepayments and tax reclaims, thereof	344	675
Value added tax	233	656
Prepaid income tax	15	14
Other taxes	96	5
Other current receivables	49	100
Total	**1,836**	**2,189**

Information about the receivables from related parties is in Note 21.

Trade receivables

	31 Dec 2012	31 Dec 2011
Trade receivables, gross	681	1,203
Allowance for impairment of trade receivables	-1	-670
Trade receivables, net	**680**	**533**

Trade receivables (net) by due date

	31 Dec 2012	31 Dec 2011
Not due	608	463
Up to 1 month past due	36	35
1-3 months past due	19	23
3-6 months past due	17	3
Over 6 months past due	0	9
Total	**680**	**533**

Trade receivables (net) in denominated currency

	31 Dec 2012	31 Dec 2011
EUR (euro)	425	358
LVL (Latvian lat)	140	90
RUB (Russian rouble)	65	49
UAH (Ukrainian hryvnia)	30	0
LTL (Lithuanian lit)	20	36
Total	**680**	**533**

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NOTE 5 Inventories

	31 Dec 2012	31 Dec 2011
Fabrics and accessories	2,281	1,474
Work-in-progress	69	62
Finished goods and goods purchased for resale	9,330	8,798
Allowance for impairment of finished goods and goods purchased for resale	-460	-450
Prepayments to suppliers	251	164
Total	**11,471**	**10,048**

The allowance for finished goods and goods purchased for sale as at 31 December 2012 compared to previous reporting date has not changed significantly. Due to competition in retail market similar sales with discount are expected. Discounts in January also support these expectations.

“Finished goods and goods purchased for resale” contains inventory acquired in Bastion business combination (331 thousand euros).

NOTE 6 Other non-current assets

	31 Dec 2012	31 Dec 2011
Non-current lease prepayments	461	367
Other long-term receivables[1]	627	262
Total	**1,088**	**629**

[1]Other long-term receivables contain among other things receivables from sale of real-estate (Note 7).

NOTE 7 Investment property

	2012	2011
Balance as at 1 January	**8,549**	**7,069**
Disposal	-8,549	0
Reclassification from property, plant and equipment (Note 8)	0	1,980
Change in fair value (Note 18)	0	-500
Balance as at 31 December	**0**	**8,549**

At the beginning of the reporting period investment property consisted of 4,500 square metres of land and two office buildings, located at 24 Veerenni in Tallinn, Estonia. Real estate space that was for own usage by Group was recorded as fixed assets.

In 2011 the carrying value of land and buildings measured at fair value was updated to reflect market conditions. The fair value calculations for buildings used 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 was 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 18).

In line with the plan to exit operating real estate and focus on its core business, AS Baltika´s subsidiary OÜ Baltika TP sold office buildings and land located at Veerenni 24 to AS Kawe Group on 31 July 2012.

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

Proceeds from the sale of the real-estate were used to reduce the Group´s borrowings (loan liabilities decreased by 13 million euros). As a result of the transaction Baltika´s investment property and fixed assets in the amount of 13.6 million euros decreased in full. Short and long term receivables increased by a total of 0.6 million euros.

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The Group continues to rent the space for its head office and store “Moetänav” in the same location.

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	48	42	40	0	0	130
Reclassifications from inventories	0	0	5	0	0	5
Disposals	-51	-4	-12	-8	-11	-86
Reclassifications to inventory	0	-28	-38	0	0	-66
Reclassifications to investment property (Note 7)	-1,980	0	0	0	0	-1,980
Reclassification	11	-64	64	-10	-1	0
Impairment	-10	0	0	0	0	-10
Depreciation	-729	-376	-925	0	0	-2,030
Currency translation differences	-20	-8	-23	-1	-1	-53
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	326	126	253	4	0	709
Reclassifications from inventories	0	0	18	0	0	18
Disposals	-5,031*	-39	-6	0	0	-5,076
Reclassifications to inventories	0	0	-7	0	0	-7
Reclassification	-21	4	17	0	0	0
Depreciation	-469	-384	-578	0	0	-1,431
Currency translation differences	-4	9	8	-1	0	12
31 December 2012						
Acquisition cost	**3,975**	**5,480**	**6,645**	**3**	**0**	**16,103**
Accumulated depreciation	-3,303	-4,786	-5,758	0	0	-13,847
Net book amount	**672**	**694**	**887**	**3**	**0**	**2,256**

*The real estate property in Veerenni 24 was sold on 31. July 2012, see more details in Note 7.

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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	12	0	0	194	206
Disposals	-76	0	0	0	-76
Reclassification	13	0	-13	0	0
Amortisation	-302	-32	0	0	-334
Currency translation differences	-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**
Additions	132*	600*	0	0	732
Disposals	-2	0	-10	0	-12
Amortisation	-265	-33	0	0	-298
Currency translation differences	2	0	0	61	63
31 December 2012					
Acquisition cost	**2,296**	**1,243**	**0**	**2,279**	**5,818**
Accumulated depreciation	-1,464	-204	0	0	-1,668
Net book amount	**832**	**1,039**	**0**	**2,279**	**4,150**

* Additions include assets acquired in the Bastion business combination 709 thousand euros (Note 23).

NOTE 10 Borrowings

	31 Dec 2012	31 Dec 2011
Current borrowings		
Current portion of non-current bank loans	1,570	2,047
Current portion of finance lease liabilities	23	121
Other current loans (Note 21)	0	1,000
Convertible bonds (Note 21)	5	10
Total	**1,598**	**3,178**
Non-current borrowings		
Non-current bank loans	3,165	15,119
Non-current finance lease liabilities	13	25
Convertible bonds (Note 21)	1,524	0
Total	**4,702**	**15,144**
Total borrowings	**6,300**	**18,322**

In May this year AS Baltika signed an agreement with a related party, according to which two-year term convertible bonds were issued. The bonds were paid for partly with monetary contribution (203 thousand euros) and partly by off-setting AS Baltika´s liabilities to the related party (liabilities in the amount of 1,046 thousand euros arising from the loan agreement signed in December 2011 and liabilities in the amount of 250 thousand euros arising from the loan agreement signed in November 2011, previously classified as an equity instrument in reserves). A liability component was recognised at the issuance of the bonds, interest rate of the bonds is comparable with market interest rate. Detailed information about the convertible bonds can be found in Note 21.

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During the reporting period, the Group made loan repayments in the amount of 14,091 thousand euros (2011: 2,336 thousand euros), refer also to Note 7. Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 877 thousand euros (2011: 1,236 thousand euros), including 72 thousand euros interest expense from convertible bonds. Group´s overdraft facilities were not used with the banks as at 31 December 2012 (31 December 2011: 382 thousand euros). In the third quarter the Group signed an annex to previous loan agreement and during the reporting period received a loan in the amount of 2,000 thousand euros.

Interest carrying loans and bonds of the Group as at 31 December 2012

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 1-month and 6-month Euribor)	4,735	EURIBOR+4,28%
H-bonds (Note 21)	1,500	7.50%
Total	**6,235**	

Interest carrying loans of the Group as at 31 December 2011

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 1-month and 6-month Euribor)	17,166	EURIBOR+4.6%
Borrowings at fixed interest rate (Note 21)	1,000	10.00%
Total	**18,166**	

NOTE 11 Trade and other payables

	31 Dec 2012	31 Dec 2011
Current liabilities		
Trade payables	4,162	3,945
Tax liabilities, thereof	1,218	1,567
Personal income tax	171	177
Social security taxes and unemployment insurance premium	454	443
Value added tax	565	849
Corporate income tax liability	11	51
Other taxes	17	47
Payables to employees[1]	1,234	921
Other accrued expenses[2]	91	119
Customer prepayments	24	26
Other current payables	276	207
Total	**7,005**	**6,785**

Non-current liabilities		
Other liabilities[3]	25	83

[1]Payables to employees consist of accrued wages, salaries and vacation reserve.
[2]Accrued expenses include interest payable in the amount of 79 thousand euros (31 December 2011: 21 thousand euros).
[3]Other non-current liabilities consist mostly of deferred income.

Information about the liabilities to related parties is in Note 21.

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Trade payables and other accrues expenses in denominated currency

	31 Dec 2012	31 Dec 2011
EUR (euro)	2,822	2,486
USD (US dollar)	1,121	1,270
RUB (Russian rouble)	80	53
LVL (Latvian lat)	98	56
LTL (Lithuanian lit)	72	75
UAH (Ukrainian hryvnia)	45	14
PLN (Polish zloty)	0	95
Other currencies	15	15
Total	**4,253**	**4,064**

NOTE 12 Equity

Share capital and reserves

	31 Dec 2012	31 Dec 2011
Share capital	7,159	25,056
Number of shares (pcs)	35,794,850	35,794,850
Nominal value of share (EUR)	0.20	0.70
Statutory reserve	1,182	652
Revaluation surplus	0	1,592
Other reserves (Note 21)	0	250

As at 31 December 2012, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros (31 December 2011: 10,000 thousand euros) and the maximum share capital is 20,000 thousand euros (31 December 2012: 40,000 thousand euros). All shares have been paid for.

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

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

In May this year an agreement with a related party was signed, according to which the equity instrument (loan carrying no interest) was offset with convertible bonds (Note 10, 21).

In accordance with the sale of investment property the revaluation surplus decreased and retained earnings increased in the amount of 1,592 thousand euros (Note 7).

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 Dec 2012		**35,794,850**

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Shareholders as at 31 December 2012

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

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 Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	977,837	2.73%
7. Other shareholders	10,960,157	30.63%
Total	**35,794,850**	**100.00%**

* The investment company OÜ BMIG is under the control of the Management Board members of the Parent company.

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.

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 consisted of operations in Poland (Baltika Poland Sp.z.o.o. ended its business activities in 2011).

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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 2012 and at 31 December 2011 is as follows

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total
2012 and as at 31 Dec 2012						
Revenue (from external customers)	36,097	16,568	0	3,264	403	56,332
Segment profit (loss)[2]	8,307	86	0	932	374	9,699
Incl. depreciation and amortisation	-721	-441	0	0	0	-1,162
Inventories of segments	3,893	2,087	0	0	0	5,980
2011 and as at 31 Dec 2011						
Revenue (from external customers)	32,208	17,126	738	2,854	483	53,409
Segment 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

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

Reconciliation of segment profit to consolidated operating profit

	2012	2011
Total segment profit	9,699	6,410
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-5,175	-5,138
Administrative and general expenses	-2,722	-2,864
Other operating income (expenses), net	157	-2,858
Operating profit (loss)	**1,959**	**-4,450**

[1]Unallocated expenses include the expenses of the parent company and production companies which are not allocated to the reportable segments in internal reporting.
[2]The segment profit is the segment operating profit, excluding other operating expenses and income.

Reconciliation of segment inventories to consolidated inventories

	31 Dec 2012	31 Dec 2011
Total inventories of segments	5,980	5,707
Inventories in Parent company and production company	5,491	4,341
Inventories on statement of financial position	**11,471**	**10,048**

In July 2012 AS Baltika sold its real-estate, which resulted in the Group exiting real-estate business, more detailed info in Note 7.

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NOTE 14 Revenue

	Q4 2012	Q4 2011	2012	2011
Sale of goods	16,116	15,287	55,683	52,776
Lease revenue	2	133	403	483
Sale of sewing services	30	40	131	101
Other	40	25	115	49
Total	**16,188**	**15,485**	**56,332**	**53,409**

NOTE 15 Cost of goods sold

	Q4 2012	Q4 2011	2012	2011
Materials and supplies	5,713	5,625	21,597	20,769
Payroll costs in production	715	594	2,765	2,856
Operating lease expenses	159	173	633	685
Other production costs	114	102	408	373
Depreciation of assets used in production (Note 8,9)	48	57	202	229
Change in allowance for inventories	360	450	10	130
Total	**7,109**	**7,001**	**25,615**	**25,042**

NOTE 16 Distribution costs

	Q4 2012	Q4 2011	2012	2011
Operating lease expenses	2,573	2,515	9,996	10,252
Payroll costs	2,961	2,676	10,136	10,179
Depreciation and amortisation (Note 8,9)	309	381	1,285	1,806
Advertising expenses	352	262	1,262	1,152
Fuel, heating and electricity costs	164	183	655	717
Fees for card payments	122	116	407	389
Consultation and management fees	4	76	211	279
Municipal services and security expenses	54	77	254	279
Travel expenses	55	39	220	185
Freight costs	45	69	207	250
Information technology expenses	61	36	202	188
Renovation expenses of retail outlets	32	29	143	97
Communication expenses	38	37	143	161
Other sales expenses[1]	251	316	1,072	1,161
Total	**7,021**	**6,812**	**26,193**	**27,095**

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

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NOTE 17 Administrative and general expenses

	Q4 2012	Q4 2011	2012	2011
Payroll costs[1]	354	323	1,273	1,300
Depreciation and amortisation (Note 8,9)	40	93	228	374
Bank fees	52	57	237	256
Information technology expenses	55	57	235	259
Operating lease expenses	102	8	183	42
Sponsorship, gifts, donations	5	20	68	53
Fuel, heating and electricity expenses	26	24	86	92
Training expenses	3	3	28	45
Management and consulting fees	7	15	29	31
Municipal services and security expenses	11	7	31	26
Other administrative expenses[2]	79	135	324	386
Total	**734**	**742**	**2,722**	**2,864**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in the amount of 63 thousand euros (2011: 134 thousand euros).

[2]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting, management, consulting, communication services, travel costs and other services.

NOTE 18 Other operating income and expenses

	Q4 2012	Q4 2011	2012	2011
Gain from sale of non-current assets	-2	2	16	4
Realization of impaired assets in previous periods	0	0	33	0
Other operating income	285	34	292	55
Foreign exchange income (losses)	-108	228	-76	-92
Loss from disposal of non-current assets[1]	-9	-149	-51	-164
Change in fair value of investment property (Note 7)	0	-500	0	-500
Membership fees	-2	0	-7	-5
Fines, penalties and tax interest	-20	-34	-25	-59
Effect of changes of estimates[2]	0	-1,176	0	-1,176
Other operating expenses[3]	0	-859	-25	-921
Total	**144**	**-2,454**	**157**	**-2,858**

[1]Loss from disposal of non-current assets arouse mainly due to the closures of ineffective stores in 2011.

[2]Effect of changes in estimates in amount of 1,176 thousand euros is resulted from the change in estimates used to assess the cost of finished goods and goods purchased for sale (the impact to cost, if the same estimates had been used last year).

[3]In 2011 other operating expenses included 699 thousand euros resulting from the impairment of trade receivables.

NOTE 19 Finance income and costs

	Q4 2012	Q4 2011	2012	2011
Interest income	0	1	0	1
Interest costs	-93	-300	-877	-1,236
Foreign exchange income (losses)	-9	62	61	-30
Other finance income	0	1	0	2
Other finance costs	-72	-76	-87	-78
Total	**-174**	**-312**	**-903**	**-1,341**

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NOTE 20 Earnings per share

		Q4 2012	Q4 2011	2012	2011
Weighted average number of shares	pcs	35,794,850	35,794,850	35,794,850	31,629,918
Net profit (loss) attributable to equity holders of the parent		1,075	-1,883	804	-5,863
Basic earnings (loss) per share	EUR	**0.03**	**-0.05**	**0.02**	**-0.19**
Diluted earnings (loss) per share	EUR	**0.03**	**-0.05**	**0.02**	**-0.19**

The Group had no dilutive potential ordinary shares as at 31 December 2012 and 31 December 2011, therefore diluted earnings per share equal basic earnings per share.

Although looking at the results of the fourth quarter separately, the Group did have dilutive potential ordinary shares, the basic earnings per share did not differ from diluted earnings per share.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2012 was 0.44 euros (2011: 0.81 euros).

NOTE 21 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 interim 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

	Q4 2012		Q4 2011		2012		2011	
	Purchases	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**
Goods	0	0	16	0	1	8	152	1
Services	123	0	308	0	303	0	476	0
Total	**123**	**0**	**324**	**0**	**304**	**8**	**628**	**1**

In 2012 AS Baltika bought mostly management, communication and other services, in 2011 AS Baltika purchased materials for production, also has bought management and other services.

Balances with related parties

	31 Dec 2012	31 Dec 2011
Other current receivables (Note 4)	1	0
Receivables from related parties total	**1**	**0**

	31 Dec 2012	31 Dec 2011
Other current loans and interests (Note 10, 11)	1,592	1,003
Trade payables (Note 11)	18	233
Balance from issuance of equity instrument (Note 12)	0	250
Payables to related parties total	**1,610**	**1,486**

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All transactions in 2012 as well as in 2011 and balances with related parties as at 31 December 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 December 2012 the balances from borrowings, interests are partly with counterparty, who is also an owner that has significant influence. As at 31 December 2011 the balances from borrowings, 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

	Q4 2012	Q4 2011	2012	2011
Salaries of the members of the Management Board	160	80	345	304
Remuneration of the members of the Supervisory Council	5	7	22	29
Total	**165**	**87**	**367**	**333**

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

As at 31 December 2012 AS Baltika had five members of the Management Board (31 December 2011: four members) and five members of the Supervisory Council (31 December 2011: six members).

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 entitled its holder to subscribe for one share of the company with a nominal value of 0.20 euros. The share subscription period for G-bonds was from 1 July 2012 until 31 December 2012. The share subscription price was 0.77 euros. Totally were subscribed 1,842 500 bonds. No shares were subscribed as at 31 December 2012.

The annual general meeting of shareholders held on 20 April 2012 decided to issue two types of convertible bonds:

- 5,000,000 convertible bonds (H-bond) with the nominal value 0.30 euros. Each bond gives its owner the right to subscribe one share with a nominal value of 0.20 euros. The share subscription price is 0.30 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 11 May 2013 until 10 May 2014. The annual interest of bonds is 7,5%. The mentioned convertible bonds were issued to a related party with significant influence KJK Fund, Sicav-SIF (Notes 10, 12);
- 2,350,000 convertible bonds (I-bond) with the nominal value 0.01 euros. Each bond gives its owner the right to subscribe one share of the Company with a nominal value of 0.20 euros. The share subscription price is 0.36 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 01 July 2015 until 31 December 2015. The bonds were issued to the management of Baltika Group companies.

	Issue date	Bond conversion period	Number of convertible bonds 31 Dec 2012	Number of convertible bonds 31 Dec 2011
G-Bond	30 June 2009	01 July 2012 - 31 Dec 2012	937,500*	1,842,500
H-Bond	11 May 2012	11 May 2013 - 10 May 2014	5,000,000	0
I-Bond	30 June 2012	01 July 2015 - 3 Dec 2015	2,350,000	0

*The bond conversion period for G-bonds ended as at 31 December 2012, no shares were subscribed.

NOTE 22 Subsidiaries

On 24 May 2012 AS Baltika acquired the remaining 6,2% of the shares of its subsidiary AS Virulane. As a result of this transaction AS Baltika became the 100% holder of its subsidiary. The difference between the carrying amount of non-controlling interest acquired and the consideration paid was recognised in parent´s equity:

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

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

NOTE 23 Business combinations

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

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

The transaction is considered not considered as significant transaction and does not have significant impact on the Group results. 106 thousand euros sales revenue from Bastion has been recorded since acquisition. The calculation of revenue and profit if the acquisition had occurred on 1 January 2012 is impracticable. The purchase price is paid in cash and is divided into two parts. In addition to the purchase of the trademark, store fixtures, inventory and other assets, a contingent amount based on one year sales results (maximum 50 thousand euros), was agreed. Contingent consideration has been fully recognised as Management estimates that the conditions for the payment will be met.

As a result of the acquisition AS Baltika has recognised a gain on bargain purchase, under „Other operating income“ (Note 18) as Management believes that the Group has acquired trademark and other assets at a competitive price when compared with other similar transactions in the market. Baltika has recognised in the transaction based on their fair value: trademark and other intangible assets (Note 9), inventory (Note 5).

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AS BALTIKA SUPERVISORY COUNCIL

JAAKKO SAKARI MIKAEL SALMELIN
Member of the Supervisory Council since 21.06.2010
Partner, KJK Capital Oy
Born in 1980
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 31 Dec 2012: 0

TIINA MÕIS
Member of the Supervisory Council since 03.05.2006
Chairman of the Management Board of AS Genteel
Born in 1957
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Council of AS Nordecon International,
Member of the Supervisory Councils of AS Rocca al Mare Kool,
Member of the Supervisory Council of AS Haabersti Jäähall,
Member of the Supervisory Councils of AS LHV Pank and AS LHV Group,
Member of the Board of Estonian Chamber of Commerce and Industry,
Member of Estonian Accounting Standards Board.
Baltika shares held on 31 Dec 2012: 977,837 shares (on AS Genteel account)

REET SAKS
Member of the Supervisory Council since 25.03.1997
Attorney at Raidla Lejins & Norcous Law Office
Born in 1962
Degree in Law, University of Tartu
Other assignments:
Member of the Management Board of MTÜ International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group.
Baltika shares held on 31 Dec 2012: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18.06.2009
Managing Director of Kaima Capital Oy
Born in 1971
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Supervisory Council of Salva Kindlustuse AS,
Member of the Supervisory Council of AS Premia Foods,
Member of the Supervisory Council of AS PKL,
Vice-chairman of the Board of AAS BAN,
Member of the Board of UAB Litagra,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Board of Directors, KJK Management SA
Chairman of the Board of Directors, KJK Capital Oy
Member of the Board of Cumulant Capital Fund Management Oy,
Chairman of the Audit Committee of AB Snaige,
Member of the Audit Committee of AB Sanitas,
Member of the Nominations Committee of Kitron ASA.
Baltika shares held on 31 Dec 2012: 24 590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Council since 20.04.2012
Chairman of the Board of AS EMT
Born in 1966
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Chairman of the Board of AS Eesti Telekom
Chairman of the Board of AS EMT
Baltika shares held on 31 Dec 2012: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Born in 1958
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31 Dec 2012: 743,531 shares[1]

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Born 1974
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika's shares 31 Dec 2012: 0

MAIRE MILDER
Member of the Management Board, Branding and Retail Developing Director
Member of the Board since 2000, in the Group since 1999
Born in 1958
Degree in Biology and Geography, University of Tartu
Baltika shares held on 31 Dec 2012: 316,083 shares (thereof 30,000 shares on Maisan OÜ account)[1]

ANDREW J. D. PATERSON
Member of the Management Board, Commercial Director
Member of the Board since 2008, in the Group since 2003
Born in 1969
Baltika shares held on 31 Dec 2012: 11,000 shares

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

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