AS BALTIKA

Consolidated interim report for the second quarter and 6 months of 2013

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 2013 – 31 December 2013
Reporting period	1 January 2013 – 30 June 2013

CONTENTS

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (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 five 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 30 June 2013 the Group employed 1,321 people (31 December 2012: 1,288).

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

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding at 30 June 2013	Holding at 31 Dec 2012
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 “Olivia”[1]	Russia	Retail	100%	-
OOO Kompania “Baltman RUS”[1]	Russia	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

[1]Interest through a subsidiary.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, SECOND QUARTER AND 6 MONTHS OF 2013

Baltika's net profit for second quarter of 2013 amounted to 624 thousand euros that is 9% improved results compared to prior year 572 thousand euros. Half-year total resulted with the strong second quarter in profit: 21 thousand euros that exceeds prior year same period result by 492 thousand euros.

Planned increase of net profit was achieved with good sales in Baltic countries, somewhat increased gross margin and cost control.

Despite the cold spring that affected sales in first quarter, company considers both sales growth and efficiency satisfactory. When first quarter retail sales growth was 7% %, then in the second quarter by 10% and, thus, total sales growth for the first half-year was 8%. Retail sales continued to grow in the largest markets of the company in the Baltic countries - the highest growth rates were posted by Estonia (19%) and Latvia (13%). Lithuania achieved both sales and efficiency growth of 10%, which efficiency figure was the best in the Group.

The performance of the Eastern European markets that contribute a smaller proportion of the company's revenue was not as strong – in Russia retail sales decreased by 1% and in Ukraine by 2%. The Russian market seems to be undergoing a certain decline in consumer confidence the Ukrainian results were undermined by cutbacks in the sales area. In addition the hryvna and ruble depreciated in the second quarter resulting with half-year 242 thousand euros foreign exchange loss for the company.

Despite the trend set in the fashion industry by many competitors that launched their discount campaigns earlier than usual, Baltika was able to maintain its gross margin also in the second quarter, where it increased to 59.2%, a 0.2 percentage point improvement year-over-year.

Baltika sales growth has been supported with opening of new stores and investments into retail network that will continue as planned – third quarter will include opening of new brand Blue Inc stores as franchisee.

The Management Board believes that the company's annual targets are achievable in spite of certain sales growth speed decline and pressure resulting from the Russian market where consumer behaviour continues to be conservative. Achieving the targets is supported by positive trends in the Baltic countries that have largest portion of the company's revenue base (70%), where stable sales growth should allow company to achieve its profitability targets (before the effects of foreign exchange differences and taxes).

Highlights from the period and until making quarterly report public

- In April AS Baltika signed franchise agreement to open Monton fashion stores in Belarus with Belarusian retail operator Valanga OOO. The plan involves opening in the next five years at least 5 Monton stores with 150-250m2 operating area in Minsk. The first Monton store in Belarus and Baltika's first store under franchise agreement will be opened this year in September.

- Baltika signed in May a contract as franchisee with A Levy & Son Ltd attaining representation rights of Blue Inc trademarks in Baltic countries. Taking the franchise is part of Baltika's strategic goal to use retail network operator experience to grow sales and market share in the Baltic countries. First Blue Inc London stores will be opened in the third quarter in Tallinn, Estonia; Riga and Valmiera in Latvia.

- In May, the Estonian Olympic Committee and Baltika signed a sponsoring agreement for the next four years. Baltika's Monton brand has been the official sponsor of the Estonian Olympic Committee and has supplied official uniforms and leisurewear for the athletes of the Estonian delegation since 2004.

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

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

- In July, management of the ladies wear collections of the Monton and Mosaic brands was assigned to Iivika Rõõmberg who has been involved in different stages of Baltika's product development and production operations for 13 years already.
- The number of stores increased in the quarter by 3. In April new Monton stores were opened: SkyMall shopping centre in Kiev, Ukraine, Galleria Riga centre in Latvia and Ufa Semja centre in Russia; Mosaic store in Ufa Mega centre in Russia and in Estonia mixed brand store Moetänav. Ivo Nikkolo store was opened in Galleria Riga centre in Latvia. Three stores in different countries were closed in the second part of the quarter.

REVENUE

Baltika sales increased by 8% in the second quarter. Due to sale of Baltika Quarter property rental income has decrease by 176 thousand euros. Both retail as well as wholesale and e-com segment sales of clothing showed 10% growth.

Revenue by activity

EUR thousand	Q2 2013	Q2 2012	+/-	6m 2013	6m 2012	+/-
Retail	13,600	12,376	10%	25,889	23,907	8%
Wholesale and e-com	627	568	10%	1,501	1,414	6%
Rent	0	176	-100%	0	344	-100%
Other	37	37	0%	60	135	-56%
Total	**14,264**	**13,157**	**8%**	**27,450**	**25,800**	**6%**

Retail

Second quarter growth increased as planned compared to that of first quarter. April and May strong growth with the more modest result in June ended the quarter with 1,224 thousand euros i.e. 10% growth. This signifies half-year sales growth of 8%.

In the second quarter, sales growth was the strongest in Estonia (19%) but vigorous double-digit growth rates were also posted by the other Baltic markets. The Group's overall result was weakened by the Eastern European figures. The Ukrainian sales volumes decreased mostly on account of shrinkage in the average sales area and both Ukrainian and Russian results were undermined by movements in foreign exchange rates. The Russian results were also impacted by Russia's macroeconomic indicators and non-realization of the consumption expectations.

Retail sales by market

EUR thousands	Q2 2013	Q2 2012	+/-	Share	6m 2013	6m 2012	+/-	Share
Estonia	4,717	3,960	19%	35%	8,580	7,265	18%	33%
Lithuania	2,631	2,401	10%	19%	5,095	4,717	8%	20%
Russia	2,301	2,315	-1%	17%	4,680	4,745	-1%	18%
Latvia	2,400	2,125	13%	18%	4,472	4,020	11%	17%
Ukraine	1,551	1,575	-2%	11%	3,062	3,160	-3%	12%
Total	**13,600**	**12,376**	**10%**	**100%**	**25,889**	**23,907**	**8%**	**100%**

Stores and sales area

The number of stores increased with the quarter by 3 – to total of 115. In April new Monton stores were opened: SkyMall shopping centre in Kiev, Ukraine, Galleria Riga centre in Latvia and Ufa Semja centre in Russia; Mosaic store in Ufa Mega centre in Russia and in Estonia mixed brand store in Moetänav. Ivo Nikkolo store was opened in Galleria Riga centre in Latvia. In the latter half of the quarter one Mosaic store was closed in Ukraine, one mixed brand store in Latvia and Monton store in Russia.

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

Stores by market

	30 June 2013	30 June 2012	Average area change
Estonia	36	30	12%
Lithuania	27	28	-2%
Russia	19	17	0%
Latvia	17	15	4%
Ukraine	16	16	-8%
Total stores	**115**	**106**	
Total sales area, sqm	**22,575**	**21,368**	**2%**

*average area change also takes into account the time store is closed for renovation

Sales efficiency growth was lead as planned by Lithuania, whose recovery after years of crisis has been considerably slower than in the rest of Baltic countries.

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

	Q2 2013	Q2 2012	+/-	6m 2013	6m 2012	+/-
Estonia	244	230	6%	224	212	6%
Lithuania	159	145	10%	156	142	10%
Russia	180	195	-7%	191	193	-1%
Latvia	227	220	3%	219	206	6%
Ukraine	158	157	0%	162	156	4%
Total	**197**	**190**	**4%**	**192**	**182**	**5%**

Sales efficiency growth in local currency in the first quarter was -4% in Russia and 2% in Ukraine.

Brands

Best sales revenue and efficiency growth was continued to be shown in the second quarter by Mosaic, which due to its good collection achieved 11% growth in sales. Just as high has been the brand's sales growth in half-year.

Retail revenue by brand

EUR thousands	Q2 2013	Q2 2012	+/-	Share	6m 2013	6m 2012	+/-	Share
Monton	6,564	6,290	4%	48%	12,554	12,327	2%	48%
Mosaic	4,416	3,985	11%	32%	8,323	7,516	11%	32%
Baltman	1,276	1,209	6%	9%	2,303	2,184	5%	9%
Ivo Nikkolo	887	862	3%	7%	1,835	1,827	0%	7%
Bastion	359	0	0%	3%	693	0	0%	3%
Other	98	30	227%	1%	181	53	242%	1%
Total	**13,600**	**12,376**	**10%**	**100%**	**25,889**	**23,907**	**8%**	**100%**

Baltman, which supplied chic and trendy Eurovision suits for the Estonian male singers Lauri Pihlap, Raimondo Laikre and Kaido Põldmaa, increased its second-quarter revenue by 6%.

Baltika's largest brand Monton's second-quarter revenues, which grew by 274 thousand euros. Good indicator of the brand's development is Monton's first new concept store, which was opened in Viru Keskus in Estonia, that received a lot of attention and recognition and has been named by the appraisers of Viru Keskus as the store that provided the best service in July.

Wholesale and e-com

Sales of wholesale and e-com was 627 thousand euros in 2013 second quarter, an increase of 10% compared to previous year. This includes strong growth of both traditional wholesale (8%) and e-com (47%), that was already open for the full period in the second quarter of prior year.

The growth in wholesale revenue was facilitated by a broad-based increase in volumes as well as products supplied to the Estonian Police Board under a public procurement contract and launch of the wholesale of the Bastion brand.

OPERATING EXPENSES AND NET PROFIT

Gross profit margin improved by 0.2 percentage points in the second quarter; increasing to 59.2%. Gross profit of the quarter was 8,446 thousand euros, that is 9% i.e. 701 thousand euros more than in the same period prior year. With 7% increase half-year gross profit amounted to 15,208 thousand euros.

The average sales area increased by six percentage in the second quarter. With the additional stores and inflation distribution expense has increased by eight percentage. Main increase comes from salary (primarily increase of performance related pay) and rent expense.

General and administrative expense increased by 3% i.e. 23 thousand euros. This includes rent expense increase of 102 thousand euros due to the sale of Baltika Quarter property and cost savings on other expense of 79 thousand euros.

Operating expense in the second quarter was 7,471 thousand euros and the ratio to revenue was 52%. The ratio improved compared to the second quarter of last year. Half-year operating expense was 14,781 thousand euros and ratio to revenue was 54%, i.e. 1 percentage point improvement compared to same period prior year.

Other operating expense has increased as it includes foreign exchange loss of 163 thousand euros. Same period in last year included foreign exchange profit of 123 thousand euros. Second quarter net other operating expense amounted to 134 thousand euros, which results in operating profit of 841 thousand euros. Half-year net profit was 314 thousand euros, which is 137 thousand euros improvement compared to same period in last year.

Net financial expense in the second quarter was 217 thousand euros due to the foreign exchange loss of 122 thousand euros. That is a decrease of 165 thousand euros despite the large foreign exchange loss due to the decrease of interest expense.

Despite the negative impact from foreign exchange loss the Net profit of the second quarter of 2013 was 624 thousand euros that is 7% higher than same period in prior year. Total half-year net profit was 21 thousand euros, which signifies an improvement by 492 thousand euros. This result was achieved despite the 242 thousand euros negative effect from foreign exchange loss that impacted the half-year result.

FINANCIAL POSITION

As at 30 June 2013 Group inventories totalled 13,175 thousand euros. This signifies a large increase in inventory compared to both last year-end and year-over-year. The yearly increase of 1,673 thousand euros i.e. 15% is due to both increase in portion of own production and production cycle brought forward, due to which fabrics and accessories supplies had to be increased. In addition Group's finished goods stock has increased due to larger number of stores and sales volume.

Investing into retail network continued in the second part of the 2013 half-year. Property, plant and equipment at cost increased by 375 thousand euros, which signifies half-year total of 1,216 thousand euros. Half-year depreciation was 619 thousand euros and in total the fixed assets residual value increased by 544 thousand euros compared to last year-end.

The owner of H-Bonds KJK Fund, Sicav-SIF requested on 6th June 2013 the conversion of bonds to Baltika shares. After registration of Prospectus by Estonian Financial Supervision Authority 5,000,000 Baltika ordinary shares were transferred on 16th July to the securities account of shareholder in Estonian CSD. After receipt of conversion request until the registration of share capital increase the principal amount of convertible bonds is recorded as unregistered share capital in equity. After conversion Baltika has 40,794,850 ordinary shares with the nominal value of 0.2 euros per share. As a result the equity increased and is 11,676 thousand euros as at 30 June 2013.

Second quarter cash-flow from operating activities was mainly used for investing into inventories, due to which total cash flow from operating activities totalled 179 thousand euros compared to previous period 588 thousand euros. Investment program continued and 419 thousand euros were contributed to investment activities. As the last part of investment loan was received in the beginning of second quarter, then despite the repayments of loan, total financing activities cash inflow was 250 thousand euros. Second quarter cash outflow in total was 29 thousand euros. Due to investments into fixed assets the half-year total cash outflow was 1,292 thousand euros, with which Baltika Group cash balance as at 30 June 2013 amounted to 786 thousand euros.

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

As at 30 June Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 5,060 thousand euros, which has increased mainly due to receipt of last part of investment loan and investment activity by 867 thousand euros compared to year end. The net debt to equity ratio was 43% as at 30 June 2013, which signifies an improvement compared to the figure at same point of seasonal cycle as at 30 June 2012 when it was 207%.

PEOPLE

As at 30 June 2013, Baltika Group employed a total of 1,321 people that is 33 people more than as at 31 December 2012 (1,288): 745 (31.12.2012: 709) in the retail system, 392 (394) in manufacturing and 184 (185) at the head office and logistics centre. The 2013 first half-year average number of staff was 1,310 (2012 half-year: 1,309).

In July, Baltika hired Tiina Urm as the new communications manager responsible for designing and implementing the communications activities of Baltika Group and its brands.

Baltika Group employees remuneration expense in first half-year of 2013 amounted to 5,562 thousand euros (2012: 5,070 thousand euros). The accrued remuneration with taxes, of the members of the Supervisory Council and Management Board totalled 178 thousand euros (2012: 136 thousand euros).

KEY FIGURES OF THE GROUP (II QUARTER AND 6 MONTHS OF 2013)

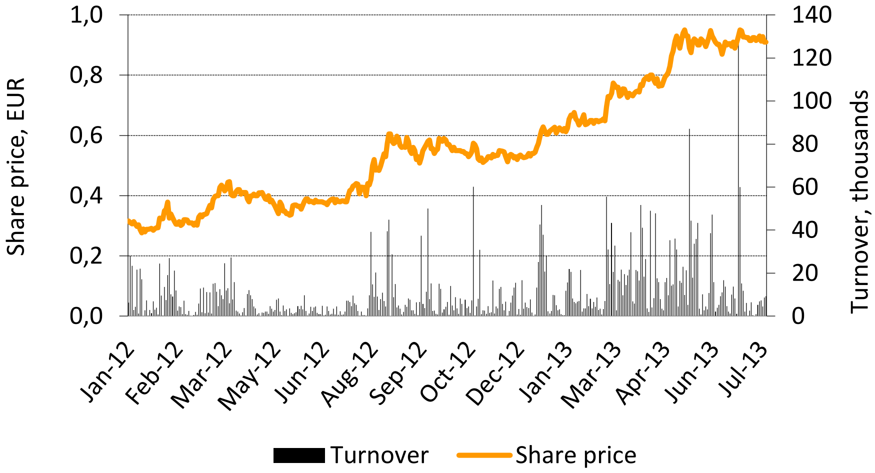
	Q2 2013	**Q2 2012**	**Q2 2011**	**Q2 2010**
Revenue (EUR thousand)	14,264	13,157	12,642	12,590
Retail sales (EUR thousand)	13,600	12,376	12,092	11,989
Share of retail sales in revenue	95%	94%	96%	95%
Gross margin	59.2%	59.0%	58.0%	55.8%
EBITDA (EUR thousand)	1,226	1,408	521	269
EBITDA margin	8.6%	10.7%	4.1%	2.1%
Operating margin	5.9%	7.4%	-0.8%	-4.1%
EBT margin	4.4%	4.4%	-3.5%	-6.8%
Net margin	4.4%	4.3%	-3.5%	-7.0%

	6M and 30 June 2013	**6M and 30 June 2012**	**6M and 30 June 2011**	**6M and 30 June 2010**
Revenue (EUR thousand)	27,450	25,800	24,413	23,638
Retail sales (EUR thousand)	25,889	23,907	22,847	21,913
Share of retail sales in revenue	94%	93%	94%	93%
Number of stores	115	106	116	128
Sales area at the end of period (sqm)	22,575	21,368	23,582	25,730
Number of employees (end of period)	1,321	1,289	1,420	1,520
Gross margin	55.4%	55.0%	54.1%	51.4%
EBITDA (EUR thousand)	1,072	1,123	-930	-989
EBITDA margin	3.9%	4.4%	-3.8%	-4.2%
Operating margin	1.1%	0.7%	-9.0%	-10.6%
EBT margin	0.1%	-1.7%	-11.5%	-12.2%
Net margin	0.1%	-1.8%	-11.5%	-12.3%
Current ratio	1.9	1.8	1.3	1.1
Inventory turnover	2.07	2.08	2.05	1.89
Net gearing ratio	43.3%	207.2%	201.1%	117.8%
Return on equity	0.2%	-4.8%	-51.3%	-60.8%
Return on assets	0.1%	-1.3%	-15.5%	-15.3%

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 = Cost of goods sold/Average inventories*
Net gearing ratio = (Interest-bearing liabilities-cash and cash equivalents)/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
7 August 2013

Maigi Pärnik-Pernik
Member of the Management Board
7 August 2013

Maire Milder
Member of the Management Board
7 August 2013

Andrew J. D. Paterson
Member of the Management Board
7 August 2013

Kati Kusmin
Member of the Management Board
7 August 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 second quarter and six months of 2013 as presented on pages 11-29.

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
7 August 2013

Maigi Pärnik-Pernik
Member of the Management Board
7 August 2013

Maire Milder
Member of the Management Board
7 August 2013

Andrew J. D. Paterson
Member of the Management Board
7 August 2013

Kati Kusmin
Member of the Management Board
7 August 2013

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2013	31 Dec 2012
ASSETS			
Current assets			
Cash and cash equivalents	3	786	2,078
Trade and other receivables	4	1,864	1,836
Inventories	5	13,175	11,471
Total current assets		**15,825**	**15,385**
Non-current assets			
Deferred income tax asset		637	637
Other non-current assets	4	1,102	1,088
Property, plant and equipment	6	2,800	2,256
Intangible assets	7	3,942	4,150
Total non-current assets		**8,481**	**8,131**
TOTAL ASSETS		**24,306**	**23,516**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	1,701	1,598
Trade and other payables	9	6,743	7,005
Total current liabilities		**8,444**	**8,603**
Non-current liabilities			
Borrowings	8	4,169	4,702
Other liabilities	9	17	25
Total non-current liabilities		**4,186**	**4,727**
TOTAL LIABILITIES		**12,630**	**13,330**
EQUITY			
Share capital at par value	10	7,159	7,159
Not registered share capital	10	1,500	0
Share premium		125	63
Reserves	10	1,182	1,182
Retained earnings		2,471	1,667
Net profit for the period		21	804
Currency translation differences		-782	-689
TOTAL EQUITY		**11,676**	**10,186**
TOTAL LIABILITIES AND EQUITY		**24,306**	**23,516**

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q2 2013	Q2 2012	6M 2013	6M 2012
Revenue	11,12	14,264	13,157	27,450	25,800
Cost of goods sold	13	-5,818	-5,412	-12,242	-11,600
Gross profit		**8,446**	**7,745**	**15,208**	**14,200**
Distribution costs	14	-6,764	-6,235	-13,339	-12,819
Administrative and general expenses	15	-707	-684	-1,442	-1,368
Other operating income	16	37	156	38	189
Other operating expenses	16	-171	-15	-151	-25
Operating profit		**841**	**967**	**314**	**177**
Finance income	17	-17	-90	0	17
Finance costs	17	-200	-292	-293	-634
Profit (loss) before income tax		**624**	**585**	**21**	**-440**
Income tax expense		0	-13	0	-31
Net profit (loss)		**624**	**572**	**21**	**-471**
Profit (loss) attributable to:					
Equity holders of the parent company		624	572	21	-472
Non-controlling interest		0	0	0	1
Other comprehensive loss					
Currency translation differences		-113	-194	-93	-116
Total comprehensive income (loss)		**511**	**378**	**-72**	**-587**
Comprehensive income (loss) attributable to:					
Equity holders of the parent company		511	378	-72	-588
Non-controlling interest		0	0	0	1
Basic earnings per share, EUR	18	0.02	0.02	0.00	-0.01
Diluted earnings per share, EUR	18	0.02	0.02	0.00	-0.01

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

CONSOLIDATED CASH FLOW STATEMENT

	Note	Q2 2013	Q2 2012	6M 2013	6M 2012
Operating activities					
Operating profit		841	967	314	177
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	13-15	389	439	763	944
Profit (loss) from disposal of PPE		9	-4	10	-8
Other non-monetary expenses		22	-169	41	-123
Changes in working capital:					
Change in trade and other receivables	4	54	-58	-42	198
Change in inventories	5	-1,917	-2,351	-1,900	-1,454
Change in trade and other payables	9	853	2,041	82	805
Interest paid		-72	-267	-138	-551
Income tax paid		0	-10	0	-56
Net cash generated (used in) from operating activities		**179**	**588**	**-870**	**-68**
Investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-424	-62	-1,466	-118
Proceeds from disposal of PPE		5	5	5	11
Acquisition of non-controlling interest		0	-91	0	-91
Net cash used in investing activities		**-419**	**-148**	**-1,461**	**-198**
Financing activities					
Received borrowings	8	1,000	0	1,000	0
Repayments of borrowings	8	-358	-158	-718	-315
Change in bank overdraft	8	-381	-282	804	242
Repayments of finance lease		-10	-37	-15	-79
Proceeds from bonds issue		0	204	0	204
Redemption of convertible bonds	8	-1	0	-4	0
Net generated from (cash used in) financing activities		**250**	**-273**	**1,067**	**52**
Total cash flows		**10**	**167**	**-1,264**	**-214**
Cash and cash equivalents at the beginning of the period	3	**815**	**482**	**2,078**	**863**
Effect of exchange gains on cash and cash equivalents		-39	0	-28	0
Cash and cash equivalents at the end of the period	3	**786**	**649**	**786**	**649**
Change in cash and cash equivalents		**-29**	**167**	**-1,292**	**-214**

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent								
	Share capital	**Unregistered share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Currency translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 31 Dec 2011	**25,056**	**0**	**89**	**2,494**	**-17,455**	**-727**	**9,457**	**165**	**9,622**
Profit (loss) for the period	0	0	0	0	-472	0	-472	1	-471
Other comprehensive loss	0	0	0	0	0	-116	-116	0	-116
Total comprehensive income (loss)	0	0	0	0	-472	-116	-588	1	-587
Offsetting losses	0	0	-89	-651	740	0	0	0	0
Decrease of the nominal value of share	-17,897	0	0	1,182	16,715	0	0	0	0
Equity instrument classification to liability (Note 10)	0	0	0	-250	0	0	-250	0	-250
Acquisition of non-controlling interest	0	0	0	0	75	0	75	-166	-91
Balance as at 30 June 2012	**7,159**	**0**	**0**	**2,775**	**-397**	**-843**	**8,694**	**0**	**8,694**
Balance as at 31 Dec 2012	**7,159**	**0**	**63**	**1,182**	**2,471**	**-689**	**10,186**	**0**	**10,186**
Profit for the period	0	0	0	0	21	0	21	0	21
Other comprehensive loss	0	0	0	0	0	-93	-93	0	-93
Total comprehensive income (loss)	0	0	0	0	21	-93	-72	0	-72
Equity-settled share-based transactions (Note 15)	0	0	62	0	0	0	62	0	62
Conversion of bonds to share capital (Note 10)	0	1,500	0	0	0	0	1,500	0	1,500
Balance as at 30 June 2013	**7,159**	**1,500**	**125**	**1,182**	**2,492**	**-782**	**11,676**	**0**	**11,676**

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 five 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 10) of AS Baltika is KJK Fund Sicaf-SIF (on ING Luxembourg S.A. account).

The Group's condensed consolidated interim report for the six months ended 30 June 2013 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 2012, 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 2012. New and revised standards and interpretations effective from 1 January 2013 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, managing these risks 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 Board's risk management activities.

Market risk

Foreign exchange risk

Sales in foreign currencies not pegged to euro constitute 45% (2012 six months: 46%). Most important currencies in retail markets are LVL (Latvian lat), LTL (Lithuanian lit), RUB (Russian rouble), UAH (Ukrainian hryvnia). 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 -2.63% (2012: +1,06%), Ukrainian hryvnia -1.22% (2012: +7.14%) and Latvian lat -0.27% (2012: +1.23%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was -1.30% (2012: +7.60%).

Foreign exchange risk arises from cash and bank (Note 3), trade receivables (Note 4) and trade payables (Note 9).

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 2013 and 2012. The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group, except in the case if the currencies were devaluated in the countries where AS Baltika has subsidiaries. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency. Additionally the Group uses the possibilities to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

Interest rate risk

As the Group's cash and cash equivalents carry fixed interest rate and the Group has no other significant interest-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 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 as at 30 June 2013 and 31 December 2012 were subject to a floating interest rate based on Euribor, which is fixed every month or six months or had a fixed interest rate (Note 8). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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

Trade receivables

For the wholesale customers credit policy is based on next actions: monitoring financial position, past experience and other factors are taken into consideration. According to the Group's credit policy, for new wholesale clients prepayments are required; for long-term contractual clients no collaterals to secure the trade receivables are required but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

At 30 June 2013 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted 1,100 thousand euros (31 December 2012: 1,023 thousand euros) on a net basis after the allowances.

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

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, 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 some Group companies to use the Group's resources up to the limit established by the Parent company. The unused limit of Group´s overdraft facilities as at 30 June 2013 was 763 thousand euros (31 December 2012: 1,567 thousand euros).

Financial liabilities by maturity at 30 June 2013

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	5,823	1,928	4,357	6,285
Finance lease liabilities (Note 8)	23	18	6	24
Convertible bonds (Note 8)	24	0	24	24
Trade payables (Note 9)	4,105	4,105	0	4,105
Other financial liabilities	187	187	0	187
Total	**10,162**	**6,360**	**4,387**	**10,747**

Financial liabilities by maturity at 31 December 2012

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	4,735	1,765	3,329	5,094
Finance lease liabilities (Note 8)	36	25	13	38
Convertible bonds (Note 8)	1,529	117	1,636	1,753
Trade payables (Note 9)	4,162	4,162	0	4,162
Other financial liabilities	91	91	0	91
Total	**10,553**	**6,160**	**4,978**	**11,138**

[1]For interest bearing borrowings carrying floating interest rate based on Euribor, the last applied spot rate to loans has been used.
[2]Used overdraft facilities are shown under loans payable within 1-5 years based on the contractual date of payment.

Operational risk

The Group's operations are mostly affected by the cyclical nature of economies in target markets and changes in competitive positions, as well as risks related to specific markets.

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.

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

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.

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

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

Net gearing ratio

	30 June 2013	**31 Dec 2012**
Interest carrying borrowings (Note 8)	5,846	6,271
Cash and bank (Note 3)	-786	-2,078
Net debt	5,060	4,193
Total equity	11,676	10,186
Total capital to net debt ratio	**43%**	**41%**

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 30 June 2013 and 31 December 2012. The carrying amount less an impairment provision of trade receivables and payables is estimated by management to approximate their fair values as trade receivables and payables are mostly short-term. As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. The Group's risk margins have not changed considerably and are reflecting the market conditions. Based on that, the Management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

NOTE 3 Cash and cash equivalents

	30 June 2013	31 Dec 2012
Cash on hand	173	415
Cash at bank and overnight deposits	613	1,663
Total	**786**	**2,078**

Cash and cash equivalents by currency

	30 June 2013	31 Dec 2012
EUR (euro)	297	1,198
RUB (Russian rouble)	250	510
LTL (Lithuanian lit)	128	103
UAH (Ukrainian hryvnia)	61	144
LVL (Latvian lat)	50	123
Total	**786**	**2,078**

NOTE 4 Trade and other receivables

	30 June 2013	31 Dec 2012
Trade receivables, net	754	680
Other prepaid expenses	736	763
Tax prepayments and tax reclaims, thereof	321	344
Value added tax	260	233
Prepaid income tax	18	15
Other taxes	43	96
Other current receivables	53	49
Total	**1,864**	**1,836**

Non-current lease prepayments	530	461
Other long-term receivables	572	627
Total	**1,102**	**1,088**

Information about the receivables from related parties is in Note 19.

Trade receivables

	30 June 2013	31 Dec 2012
Trade receivables, gross	755	681
Allowance for impairment of trade receivables	-1	-1
Trade receivables, net	**754**	**680**

Trade receivables (net) by due date

	30 June 2013	31 Dec 2012
Not due	661	608
Up to 1 month past due	61	36
1-3 months past due	10	19
3-6 months past due	21	17
over 6 months past due	1	0
Total	**754**	**680**

Trade receivables (net) in denominated currency

	30 June 2013	31 Dec 2012
EUR (euro)	567	425
LVL (Latvian lat)	93	140
RUB (Russian rouble)	52	65
UAH (Ukrainian hryvnia)	24	30
LTL (Lithuanian lit)	18	20
Total	**754**	**680**

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

NOTE 5 Inventories

	30 June 2013	31 Dec 2012
Fabrics and accessories	2,549	2,281
Work-in-progress	69	69
Finished goods and goods purchased for resale	9,855	9,330
Allowance for impairment of finished goods and goods purchased for resale	0	-460
Prepayments to suppliers	702	251
Total	**13,175**	**11,471**

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Construction in progress	Pre-payments	Total
31 December 2011						
Acquisition cost	**9,231**	**5,633**	**6,691**	**0**	**0**	**21,554**
Accumulated depreciation	-3,360	-4,655	-5,509	0	0	-13,523
Net book amount	**5,871**	**978**	**1,182**	**0**	**0**	**8,031**
Additions	23	22	67	6	0	118
Reclassifications from inventories	0	0	6	0	0	6
Disposals	0	0	-3	0	0	-3
Reclassifications to inventory	0	0	-7	0	0	-7
Reclassifications to investment property	-5,029	0	0	0	0	-5,029
Reclassification	-15	4	17	-6	0	0
Depreciation	-291	-203	-309	0	0	-803
Currency translation differences	5	5	7	0	0	17
30 June 2012						
Acquisition cost	**3,731**	**5,552**	**6,743**	**0**	**0**	**16,026**
Accumulated depreciation	-3,167	-4,746	-5,783	0	0	-13,696
Net book amount	**564**	**806**	**960**	**0**	**0**	**2,330**
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**
Additions	427	125	528	97	39	1,216
Reclassifications from inventories	0	0	1	1	0	2
Disposals	-12	-2	-1	0	0	-15
Reclassifications to inventories	0	0	-6	0	0	-6
Reclassification	76	-33	53	-96	0	0
Depreciation	-220	-168	-231	0	0	-619
Currency translation differences	-13	-9	-12	0	0	-34
30 June 2013						
Acquisition cost	**4,122**	**5,262**	**6,890**	**5**	**39**	**16,318**
Accumulated depreciation	-3,192	-4,655	-5,671	0	0	-13,518
Net book amount	**930**	**607**	**1,219**	**5**	**39**	**2,800**

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
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	-132	-17	0	0	-149
Currency translation differences	1	0	0	17	18
30 June 2012					
Acquisition cost	**2 176**	**643**	**10**	**2 235**	**5 064**
Accumulated depreciation	-1 342	-188	0	0	-1 530
Net book amount	**834**	**455**	**10**	**2 235**	**3 534**
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	12	0	39	0	51
Amortisation	-130	-22	0	0	-152
Currency translation differences	-2	0	0	-105	-107
30 June 2013					
Acquisition cost	**2 297**	**1 243**	**39**	**2 174**	**5 753**
Accumulated depreciation	-1 585	-226	0	0	-1 811
Net book amount	**712**	**1 017**	**39**	**2 174**	**3 942**

NOTE 8 Borrowings

	30 June 2013	31 Dec 2012
Current borrowings		
Current portion of non-current bank loans	1,684	1,570
Current portion of finance lease liabilities	17	23
Convertible bonds (Note 19)	0	5
Total	**1,701**	**1,598**
Non-current borrowings		
Non-current bank loans	4,139	3,165
Non-current finance lease liabilities	6	13
Convertible bonds (Note 19)	24	1,524
Total	**4,169**	**4,702**
Total borrowings	**5,870**	**6,300**

During the reporting period the Group received loan in the amount of 1,000 thousand euros (2012: 0 thousand euros). The loan was received under the annex of the same loan agreement that the Group signed in 2012.

During the reporting period, the Group made loan repayments in the amount of 718 thousand euros (2012: 315 thousand euros). Interest expense of all interest carrying borrowings of the reporting period amounted to 177 thousand euros (2012: 593 thousand euros), including 48 thousand euros interest expense from convertible bonds. Group´s overdraft facilities with the banks were used in the amount of 804 thousand euros as at 30 June 2013 (31 December 2012: 0 thousand euros).

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

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

In June this year related party submitted a request to exchange convertible bonds for shares. See more in Note 10.

Interest carrying loans and bonds of the Group as at 30 June 2013

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 1-month and 6-month Euribor)	5,823	EURIBOR+4,46%
Total	**5,823**	

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 19)	1,500	7.50%
Total	**6,235**	

NOTE 9 Trade and other payables

	30 June 2013	31 Dec 2012
Current liabilities		
Trade payables	4,105	4,162
Tax liabilities, thereof	1,165	1,218
Personal income tax	229	171
Social security taxes and unemployment insurance premium	511	454
Value added tax	396	565
Corporate income tax liability	8	11
Other taxes	21	17
Payables to employees[1]	1,202	1,234
Other accrued expenses[2]	187	91
Customer prepayments	52	24
Other current payables	32	276
Total	**6,743**	**7,005**
Non-current liabilities		
Other liabilities	17	25

[1]Payables to employees consist of accrued wages, salaries and vacation reserve.
[2]Accrued expenses include interest payable in the amount of 128 thousand euros (31 December 2012: 79 thousand euros).

Information about the liabilities to related parties is in Note 19.

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

Trade payables and other accrues expenses in denominated currency

	30 June 2013	31 Dec 2012
EUR (euro)	2,945	2,822
USD (US dollar)	1,132	1,121
RUB (Russian rouble)	82	80
LVL (Latvian lat)	52	98
UAH (Ukrainian hryvnia)	35	45
LTL (Lithuanian lit)	28	72
Other currencies	18	15
Total	**4,292**	**4,253**

NOTE 10 Equity

Share capital and reserves

	30 June 2013	31 Dec 2012
Share capital	7,159	7,159
Number of shares (pcs)	35,794,850	35,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182

As at 30 June 2013 and 31 December 2012, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for. As at 30 June 2013 and 31 December 2012 share capital consists of ordinary shares, that are listed on the Tallinn Stock Exchange.

Not registered share capital

	30 June 2013	31 Dec 2012
Not registered share capital	1,500	0

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

On 30 June 2013 the conversion process of bonds to shares is in progress: for the exchange of convertible bonds, Baltika prepared and disclosed a Prospectus that was registered in the Estonian Financial Supervision Authority. As the result of the conversion borrowings, that had become current borrowings at the moment of request, decreased in the amount of 1.5 million euros. Equity increased in the same amount.

After the registration of shares, share capital will increase by 1 million euros, share premium by 0.5 million euros. After the registration of shares, AS Baltika will have 40,795 thousand ordinary shares with the nominal value of 0.2 euros per share.

Convertible bonds

	Issue date	Bond conversion period	Number of convertible bonds 30 June 2013	Number of convertible bonds 31 Dec 2012
I-Bond	30 June 2012	01 July 2015 - 31 Dec 2015	2,350,000	2,350,000

- I-bonds

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

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

Shareholders as at 30 June 2013

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. Clearstream Banking Luxembourg S.A. clients	6,557,136	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	1,670,000	4.67%
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	9,738,094	27.20%
Total	**35,794,850**	**100.00%**

Shareholders as at 31 December 2012

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

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

The Parent company does not have a controlling shareholder or group of shareholders jointly controlling the entity.

NOTE 11 Segments

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

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

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

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

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

The segment information provided to the Management Board for the reportable segments for the period ended on 30 June 2013 and on 30 June 2012 is as follows

	Retail, Baltic region	Retail, Eastern Europe	Whole-sale[1]	Real estate manage-ment	Total
6M 2013 and as at 30 June 2013					
Revenue (from external customers)	18,151	7,742	1,557	0	27,450
Segment profit (loss)[2]	3,781	-182	386	0	3,985
Incl. depreciation and amortisation	-305	-211	-3	0	-519
Inventories of segments	3,551	1,746	0	0	5,297
6M 2012 and as at 30 June 2012					
Revenue (from external customers)	16,003	7,905	1,547	345	25,800
Segment profit (loss)[2]	2,959	-324	461	321	3,417
Incl. depreciation and amortisation	-410	-216	0	0	-626
Inventories of segments	3,216	1,650	0	0	4,866

[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.
[3]In 2012 AS Baltika sold its real-estate, which resulted in the Group exiting real-estate business.

Reconciliation of segment profit to consolidated operating profit

	Q2 2013	Q2 2012	6M 2013	6M 2012
Total segment profit	3,099	2,745	3,985	3,417
Unallocated expenses[1]:				
Costs of goods sold and distribution costs	-1,417	-1,235	-2,116	-2,036
Administrative and general expenses	-707	-684	-1,442	-1,368
Other operating income (expenses), net	-134	141	-113	164
Operating profit (loss)	**841**	**967**	**314**	**177**

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

Reconciliation of segment inventories to consolidated inventories

	30 June 2013	31 Dec 2012	30 June 2012
Total inventories of segments	5,297	5,980	4,866
Inventories in Parent company and production company	7,878	5,491	6,635
Inventories on statement of financial position	**13,175**	**11,471**	**11,501**

NOTE 12 Revenue

	Q2 2013	Q2 2012	6M 2013	6M 2012
Sale of goods	14,227	12,946	27,390	25,323
Lease revenue	0	176	0	344
Other	37	35	60	133
Total	**14,264**	**13,157**	**27,450**	**25,800**

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

Sales by geographical (client location) areas

	Q2 2013	Q2 2012	6M 2013	6M 2012
Estonia	5,001	4,461	9,149	8,278
Russia	2,388	2,351	4,880	4,884
Lithuania	2,644	2,412	5,125	4,736
Latvia	2,478	2,176	4,674	4,145
Ukraine	1,554	1,595	3,067	3,196
Finland	88	86	345	313
Germany	93	66	187	231
Other countries	18	10	23	17
Total	**14,264**	**13,157**	**27,450**	**25,800**

NOTE 13 Cost of goods sold

	Q2 2013	Q2 2012	6M 2013	6M 2012
Materials and supplies	4,661	4,391	10,470	9,994
Payroll costs in production	839	623	1,587	1,330
Operating lease expenses	166	158	333	316
Other production costs	106	89	221	205
Depreciation of assets used in production (Note 6,7)	46	51	91	105
Change in allowance for inventories	0	100	-460	-350
Total	**5,818**	**5,412**	**12,242**	**11,600**

NOTE 14 Distribution costs

	Q2 2013	Q2 2012	6M 2013	6M 2012
Payroll costs	2,716	2,394	5,278	4,790
Operating lease expenses	2,627	2,446	5,219	4,943
Advertising expenses	355	281	637	552
Depreciation and amortisation (Note 6,7)	306	319	592	692
Fuel, heating and electricity costs	167	148	359	344
Fees for card payments	110	96	210	187
Municipal services and security expenses	85	70	170	144
Travel expenses	60	42	137	110
Information technology expenses	60	38	109	95
Consultation and management fees	36	50	85	157
Communication expenses	37	36	76	69
Other sales expenses[1]	205	315	467	736
Total	**6,764**	**6,235**	**13,339**	**12,819**

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

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

NOTE 15 Administrative and general expenses

	Q2 2013	Q2 2012	6M 2013	6M 2012
Payroll costs[1]	322	320	645	623
Operating lease expenses	109	6	220	13
Information technology expenses	62	54	120	120
Bank fees	57	58	109	130
Depreciation and amortisation (Note 6,7)	39	69	80	147
Management, juridical-, auditor´s and other consulting fees	25	33	57	90
Fuel, heating and electricity expenses	21	18	55	44
Sponsorship, gifts, donations	12	43	26	50
Other administrative expenses[2]	60	83	130	151
Total	**707**	**684**	**1,442**	**1,368**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in the amount of 63 thousand euros (2012: 0 thousand euros).
[2]Other administrative expenses consist of insurance and office, communication, travel, training, municipal and security expenses and other services.

NOTE 16 Other operating income and expenses

	Q2 2013	Q2 2012	6M 2013	6M 2012
Gain from sale of PPE	3	4	3	8
Realization of impaired assets in previous periods	6	29	6	32
Other operating income	28	0	29	1
Foreign exchange gain (-loss)	-163	123	-137	148
Fines, penalties and tax interest	-1	0	-4	-5
Other operating expenses	-7	-15	-10	-20
Total	**-134**	**141**	**-113**	**164**

NOTE 17 Finance income and costs

	Q2 2013	Q2 2012	6M 2013	6M 2012
Interest costs	-89	-288	-177	-593
Foreign exchange income (losses)	-122	-90	-105	17
Other finance costs (net)	-6	-4	-11	-41
Total	**-217**	**-382**	**-293**	**-617**

NOTE 18 Earnings per share

Basic earnings per share		Q2 2013	Q2 2012	6M 2013	6M 2012
Weighted average number of shares	pcs	35,795	35,795	35,795	35,795
Net profit (loss) attributable to equity holders of the parent		624	572	21	-472
Basic earnings per share	EUR	**0.02**	**0.02**	**0.00**	**-0.01**

Diluted earnings per share		Q2 2013	Q2 2012	6M 2013
Weighted average number of shares	pcs	35,795	35,795	35,795
Adjustments:				
- weighted average of convertible bonds	pcs	5,946	2,802	5,763
Total weighted average number of shares and convertible bonds		**41,741**	**38,597**	**41,558**
Net profit attributable to equity holders of the parent		624	572	21
Interest expense (convertible bonds)		21	16	48
Adjusted net profit attributable to equity holders of the parent		**645**	**588**	**69**
Diluted earnings per share	EUR	**0.02**	**0.02**	**0.00**

Baltika Group Consolidated interim report for the second quarter and 6 months of 2013 (in thousands euros, unaudited)

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in the six months of 2013 was 0.77 euros (2012: 0.36 euros).

NOTE 19 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 significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 10);
- members of the Management Board and the Supervisory Council[1];
- close family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Council.

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

Transactions with related parties

	Q2 2013	Q2 2012	6M 2013	6M 2012
	Purchases	Purchases	Purchases	Purchases
Goods	0	1	0	1
Services	68	69	125	119
Total	**68**	**70**	**125**	**120**

In the reporting period AS Baltika bought mostly management, communication and other services from related parties. In the 2012 AS Baltika bought mostly management and other services from related parties.

Balances with related parties

	30 June 2013	31 Dec 2012
Other current receivables (Note 4)	1	1
Receivables from related parties total	**1**	**1**

	30 June 2013	31 Dec 2012
Other current loans and interests (Note 8, 9)	141	1,592
Trade payables (Note 9)	17	18
Payables to related parties total	**158**	**1,610**

All transactions in 2013 as well as in 2012 reporting periods and balances with related parties as at 30 June 2013 and 31 December 2012 were with entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members. As at 30 June 2013 and 31 December 2012 the balances from borrowings, interests are partly with counterparty, who is also an owner that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	Q2 2013	Q2 2012	6M 2013	6M 2012
Salaries of the members of the Management Board[1]	81	64	169	123
Remuneration of the members of the Supervisory Council	4	6	9	13
Total	**85**	**70**	**178**	**136**

[1]In the reporting period there were five members of Management Board (2012: four members).

Convertible bonds (I-bonds) are partly issued to related parties (Note 8).

AS BALTIKA SUPERVISORY COUNCIL

JAAKKO SAKARI MIKAEL SALMELIN
Member of the Supervisory Council since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 30 June 2013: 0

TIINA MÕIS
Member of the Supervisory Council since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Council of AS Nordecon International,
Member of the Supervisory Councils of AS 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 30 June 2013: 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
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 30 June 2013: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the 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 30 June 2013: 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
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Chairman of the Board of AS Eesti Telekom
Baltika shares held on 30 June 2013: 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
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 30 June 2013: 743,531 shares[1]

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika shares 30 June 2013: 0

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

ANDREW J. D. PATERSON
Member of the Management Board, Commercial Director
Member of the Board since 2008, in the Group since 2003
Baltika shares held on 30 June 2013: 11,000 shares

KATI KUSMIN
Member of the Management Board, Sales and Marketing Director
Member of the Board since 2012, in the Group since 2012
Degree in Economics, Tallinn University of Technology
Baltika shares 30 June 2013: 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”).