# *AS BALTIKA*

## *Consolidated interim report for the first quarter and 3 months of 2011*

| | |
|---|---|
| Commercial name | AS Baltika |
| Commercial registry number | 10144415 |
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| 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 | 01.01.2011 – 31.12.2011 |
| Reporting period | 01.01.2011 – 31.03.2011 |

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## BRIEF DESCRIPTION OF BALTIKA GROUP

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

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

At 31 March 2011, the Group employed 1,418 people (31 December 2010: 1,419).

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

The Group consists of the following companies:

| Subsidiary | Location | Activity | Holding at 31.03.2011 | Holding at 31.12.2010 |
|---|---|---|---|---|
| OÜ Baltika Retail | Estonia | Holding | 100% | 100% |
| OÜ Baltman[1] | Estonia | Retail | 100% | 100% |
| SIA Baltika Latvija[1] | Latvia | Retail | 100% | 100% |
| UAB Baltika Lietuva[1] | Lithuania | Retail | 100% | 100% |
| Baltika Ukraina Ltd[1] | Ukraine | Retail | 100% | 100% |
| OOO Kompania “Baltman RUS” [1] | Russia | Retail | 100% | 100% |
| Baltika Poland Sp.z.o.o. | Poland | Retail | 100% | 100% |
| OY Baltinia AB | Finland | Distribution | 100% | 100% |
| Baltika Sweden AB | Sweden | Distribution | 100% | 100% |
| OÜ Baltika Tailor | Estonia | Production | 100% | 100% |
| AS Virulane | Estonia | Production | 93,8% | 93,8% |
| OÜ Baltika TP | Estonia | Real estate management | 100% | 100% |

[1]Interest through a subsidiary.

## MANAGEMENT REPORT

### BALTIKA'S FINANCIAL RESULTS, 1 QUARTER 2011

On the whole, Baltika Group's performance in the first two months of the first quarter of 2011 corresponded to the company's expectations while March proved a disappointment. Although the third month of the year seems to have been a failure for the fashion industry across Europe, we have to admit that growth in the proportion of goods of the new season proved notably smaller than anticipated, particularly in the retail markets of Eastern Europe where the result fell 250 thousand euros short of expectations. Considerably smaller sales of high-margin products, the weakening of the Ukrainian hryvna against the euro and some non-recurring expenses of around 160 thousand euros caused a result that was atypically poor for March, remaining 500 thousand euros below target.

According to management's estimates, the dramatic deterioration in the achievement of operating targets will be limited to one month, March. Operating results for April will again be in line with the company's expectations and plans.

The Group's sales and the profitability of its retail system continued to improve in the first quarter of 2011. After a period of two years, this was the second consecutive quarter of sales growth: compared with the first quarter of the previous year the Group achieved 9% retail sales growth although the sales area was 8% smaller on average. Strong sales growth coupled with increased efficiency and an improved gross margin allowed ending the first quarter of 2011 with a 15% larger gross profit (5,891 thousand euros).

The gross margin for the first quarter of 2011 was 50% (Q1 2010: 46%), which is attributed to the recovery of consumer spending and better inventory and discount management

The Group's sales per square metre (sales efficiency) grew by 18%. The indicator improved in all of the Group's retail markets, particularly in Lithuania (up 23%) and Latvia and Ukraine (up 21%). At the level of the stores, the Group's retail system generated a profit of 312 thousand euros compared with a loss of 63 thousand euros incurred in the first quarter of the previous year.

Baltika ended the first quarter of 2011 with a net loss of 2,364 thousand euros. Although the net loss for the first quarter of 2010 was 2,027 thousand euros, on a comparative basis the result for the first quarter of 2011 is 602 thousands euros, i.e. 22% better. The figure for the previous year was improved by the divestment of the MasCara and Herold brands of AS Virulane and the sale of some items of property, plant and equipment that yielded 256 thousand euros. Moreover, in 2010 movements in foreign exchange rates had a positive impact: in the first quarter of 2010 AS Baltika earned a foreign exchange gain of 514 thousand euros in contrast to a foreign exchange loss of 169 thousand euros incurred in the first quarter of 2011.

Although in general operating results are following a positive trend, management has decided to adopt resolute measures in response to the negative results for March:

- It has been decided that the Group will discontinue its operations in the Polish market as of 31 July 2011. A provision for the expenses that might be incurred on closing the Polish operations was made already in 2010. Therefore, the discontinuance of operations should have no one-off negative impact on the Group's results;
- During the period until the year-end, the management board will cut general administrative and operating expenses by at least 320 thousand euros;
- The stores that perform below expectations will remain under careful scrutiny. In the first half of 2011, the Group will close five stores (four of them were closed in the first quarter) and in the second half-year a further six (including four in Poland). This will have a significant positive impact on the profitability of the retail system.;
- Management of the Russian market will be strengthened;
- The Group's brand management processes will be analysed so as to find additional opportunities for increasing revenue and cutting expenses.

In the first quarter of 2011 the Group reinforced its top management: in January the position of retail operations director was filled by Luke Dobbs who has extensive industry experience from British retail chains and in February the position of chief financial officer was taken over by Maigi Pärnik who has a strong finance and IT background. The Group is also developing a centralised visual merchandising function.

With the assistance of the international consulting firm Roland Berger, in summer 2010 Baltika developed its strategy until 2014. In the preliminary phase in 2011 the Group will develop and implement the required

strategic tools and a development plan with a view to becoming a profitable growing international clothing business by 2014.

In the current year, Baltika will focus on the following projects:

- refreshing the Monton and Mosaic brands as well as their retail concepts in partnership with the international creative agency Dan Pearlman and gradually renovating the stores;
- the test version of the Monton e-shop;
- discontinuing Mosaic's children's collection and increasing the brand's ladieswear collection;
- developing Baltman's special-order suit service - increasing the offering of quality products aimed a specific customers in both Estonia and foreign countries;
- preparing for Ivo Nikkolo's international growth;
- multi-channelling or preparing for growth through different sales channels

The company's management board has proposed to the shareholders that the company issue an additional 3,150 thousand shares at an issue price of 1 euro each. The funds raised through the share issue will be used as supplementary financing for the Group's re-emerging growth. In cooperation with the international creative agency Dan Pearlman, Baltika is refreshing its two larger brands, Monton and Mosaic, and their retail concepts. The new concepts will gradually be adopted on revamping the Group's existing stores as well as opening new ones. The extra funds will also be used for financing some development projects that are in their preparatory stage and making additional purchases in response to growing sales.

The company expects that in the next quarters of 2011 sales will continue growing and efficiency will continue improving across all its markets. According to management's estimates, the summarized result for the next nine months of the year will be positive.

REVENUE

Baltika Group ended the first quarter of 2011 with revenue of 11,771 thousand euros, a 7% increase year-over-year.

**Revenue Revenue by business segment**

| | Q1 2011 | Q1 2010 | +/- |
|---|---|---|---|
| Retail | 10,755 | 9,927 | 8% |
| Wholesale | 845 | 1,028 | -18% |
| Rent | 110 | 85 | 29% |
| Sewing services | 54 | 0 | 0% |
| Other | 7 | 7 | 0% |
| **Total** | **11,771** | **11,047** | **7%** |

## Retail

Retail revenue for the first quarter of 2011 amounted to 10,755 thousand euros, a 8% increase year-over-year, growing for the second consecutive quarter (Q4 2010: +7%). In the first quarter of 2011 retail revenue grew in Latvia (25%), Estonia and Russia (14%). In Lithuania, retail revenue remained stable compared with the same period in 2010 and in Ukraine and Poland retail revenues decreased somewhat. The latter developments are attributable to substantial cutbacks in the sales area: due to the restructuring of the store network the sales area has decreased by around 20% in both Lithuania and Ukraine and roughly 16% in Poland.

**Retail sales by market**

| | Q1 2011 | Q1 2010 | +/- | Share |
|---|---|---|---|---|
| Estonia | 2,808 | 2,463 | 14% | 26% |
| Russia | 2,543 | 2,225 | 14% | 24% |
| Lithuania | 2,118 | 2,121 | 0% | 19% |
| Ukraine | 1,494 | 1,583 | -6% | 14% |
| Latvia | 1,490 | 1,192 | 25% | 14% |
| Poland | 302 | 343 | -12% | 3% |
| **Total** | **10,755** | **9,927** | 8% | 100% |

**Brands**

In terms of brands, the largest proportion of Baltika's retail revenue is generated by Monton whose retail sales for the first quarter of 2011 accounted for 52% of the Group's total retail revenue. Mosaic contributed 32%, and Baltman and Ivo Nikkolo 8% each.

The brands' sales results and efficiency indicators have improved significantly, affirming that the economic environment and consumer sentiment have stabilised and the improvements made to the Group's collection development process and management of the retail system have been effective. The brands' marketing activities have been reinforced with a strong focus on enhancing both visual and customer communication by creating more attractive window displays, being more active in using different communication channels, etc.

In the first quarter of 2011, retail sales of Monton totalled 5,641 thousand euros. Compared with the same period in 2010, sales grew by 8% while the sales area contracted by 8%.

Although Mosaic's target customer group has shown a slower recovery from the crisis, Mosaic's sales and efficiency indicators have improved – retail sales for the first quarter of 2011 amounted to 3,417 thousand euros, a 2% increase year-over-year while the sales area shrank by 12% and sales per square metre grew by 12%.

Mosaic plays an important role in Baltika's wholesale operations. In the first quarter of 2011 it contributed 69% to the Group's total wholesale revenue. The continuously increasing pre-orders of Peek & Cloppenburg, one of the largest European department store chains, have transformed Mosaic into an international European clothing brand. In addition to Mosaic's brand stores in Estonia, Latvia, Lithuania, Ukraine and Russia, the brand is on sale in 29 cities in ten European countries. The Mosaic collection is carried by 11 Peek & Cloppenburg department stores in Germany, ten in Austria, eight in Poland, three in Slovakia, two in Slovenia and Croatia, and one in the Netherlands, the Czech Republic, Hungary and Romania each.

Baltman's retail revenue for the first quarter of 2011 was 810 thousand euros, 18% up year-over-year, achieved on a sales area that was 17% smaller than a year ago. Baltman's sales efficiency has improved by 29%, reflecting recovery of demand for men's fashion and more efficient management of the retail business. The collection rejuvenation process started last year is yielding good results.

Baltman's special-order suit service launched in 2010 has already found loyal clientele in Estonia and the brand will expand with the service to Latvia and Lithuania. The special-order suit service offers the customer an opportunity to obtain a suit made of specially ordered fabric according to the customer's own specifications.

Ivo Nikkolo sustained steady performance throughout the economic downturn, posting strong growth also in the first quarter of 2011. The brand's retail revenue rose to 882 thousand euros, a 43% improvement year-over-year, while the sales area contracted by 5%. In the first quarter of 2011, the brand's sales per square metre grew by 41% and comparable store sales by 27% (year-over-year).

**Stores and sales area**

At the end of the first quarter of 2011, Baltika had 116 stores in six countries with a total sales area of 23,961 square metres, 15 stores and 2,217 square metres less than a year ago. In the first quarter of 2011, the Group closed four stores: two in Lithuania, one in Ukraine and one in Russia. The Group will continue monitoring the profitability of the stores and streamlining its retail system.

**Stores by market**

| | **31.03.2011** | **31.03.2010** |
|---|---:|---:|
| Estonia | 30 | 32 |
| Lithuania | 29 | 36 |
| Russia | 22 | 23 |
| Ukraine | 16 | 20 |
| Latvia | 15 | 15 |
| Poland | 4 | 5 |
| **Total stores** | **116** | **131** |
| **Total sales area, sqm** | **23,961** | **26,178** |

**Wholesale**

Baltika's wholesale revenue for the first quarter of 2011 amounted to 845 thousand euros, a 18% decrease from the first quarter of 2010. On the other hand, wholesale revenue from sales to comparable customers grew by 39%. In the first quarter of 2010, 41% of the Group's wholesale revenue was generated by the products of AS Virulane; to date the brands of AS Virulane have been divested.

The most notable sales growth was achieved in the Western and Eastern European markets in connection with the acceptance of the Group's products to an increasing number of Peek & Cloppenburg department stores. If in the first quarter of 2010 Mosaic was represented at 30 Peek & Cloppenburg department stores, to date the brand has penetrated a further 10 department stores and two new markets – the Netherlands and Romania. Previously Mosaic was already represented at selected Peek & Cloppenburg department stores in Germany, Austria, Poland, Slovakia, Slovenia, Hungary, the Czech Republic and Croatia. In the Austrian and Polish markets, the brand is represented in most of the chain's department stores. Peek & Cloppenburg is one of the leading European department store chains that has more than 80 department stores in Germany and over 100 department stores across Europe.

Wholesale growth has also been supported by the opening of Stockmann's new stores in the Russian market (particularly the flagship store in St Petersburg).

## FINANCIAL PERFORMANCE

Operating expenses will remain under careful scrutiny also in 2011 but the Group does not expect further cost savings. Economic recovery in Baltika's target markets has triggered a rise in lease and labour expenses and preparations for a new growth cycle require additional expenditures and investments. Distribution expenses for the period grew by 1% to 7,028 thousand euros. In the retail system, lease expenses remained at the same level as in the previous year but charges per square metre increased. In 2010 many leases entailed temporary crisis-induced discounts which to date have ended.

In the first quarter of 2011, Baltika earned a gross profit of 5,891 thousand euros, a 15% increase year-over-year on a sales area that was 8% smaller on average. The vigorous growth may be attributed to a significantly improved gross margin. The Group's gross margin for the first quarter was 50% (Q1 2010: 46%).

First quarter operating loss from the core business was 2,095 thousand euros against 2,004 thousand euros for the first quarter of 2010. The figure for the previous year was improved by the divestment of the MasCara and Herold brands of AS Virulane and the sale of some items of property, plant and equipment that yielded 256 thousand euros. In addition, in the first quarter of 2010 movements in foreign exchange rates had a positive impact and AS Baltika earned foreign exchange gain of 304 thousand euros in contrast to a foreign exchange loss of 189 thousnd euros incurred in the first quarter of 2011. Comparative operating loss (excluding the effects of a non-recurring sales transaction and movements in foreign exchange rates) for the first quarter of 2011 was 658 thousand euros, i.e. 26% smaller than a year ago.

The Group's finance costs for the first quarter of 2011 were 287 thousand euros, 25% up year-over-year. The largest finance cost item was interest expense. At the end of the first quarter of 2011, the weighted average loan interest rate for the Group's loan portfolio was 6.13% (Q1 2010: 5.39%).

Baltika Group ended the first quarter of 2011 with a net loss of 2,364 thousand euros. The net loss for the first quarter of 2010 was 2,024 thousand euros. Comparative net loss for the first quarter of 2011 (excluding the effect of a non-recurring sales transaction and movements in foreign exchange rates) was 602 thousand euros, i.e. 22% smaller than a year ago.

## FINANCIAL POSITION

At 31 March 2011, Baltika Group had total assets of 37,636 thousand euros, a 5% decrease compared with 31 December 2010.

Trade and other receivables remained stable compared with the previous year-end, totalling 3,120 thousand euros at the end of the first quarter. Trade receivables decreased by 2% to 1,280 thousand euros. The net amount of trade receivables includes the allowance for doubtful receivables of 34 thousand euros.

At the end of the first quarter, inventories totalled 10,209 thousand euros, a decrease of 595 thousand euros, i.e. 6% compared with the previous year-end.

Trade payables as at the end of the first quarter stood at 4,994 thousand euros, a 640 thousand euro increase on the year-end figure.

At the end of the first quarter, the Group's net debt (interest-bearing liabilities less cash and bank balances) was 19,333 thousand euros. The year-end net debt to equity ratio was 190%. The Group's equity as at 31 March 2011 amounted to 10,158 thousand euros.

## INVESTMENT

Baltika did not make any major investments in the first quarter of 2011.

PEOPLE

At 31 March 2011, Baltika Group employed a total of 1,418 people (31 December 2010: 1,419): 801 (799) in the retail system, 433 (442) in manufacturing and 184 (178) at the head office and logistics centre. The period's average number of staff was 1,400 (Q1 2010: 1,672)

Employee remuneration expenses for the first quarter of 2011 totalled 2,614 thousand euros (Q1 2010: 2,708 thousand euros). The remuneration of the members of the supervisory council and management board totalled 80 thousand euros (Q1 2010: 80 thousand euros).

In the reporting period, the composition of the management board changed: Maigi Pärnik-Pernik stepped up as chief financial officer and member of the management board of AS Baltika on 30 March. Meelis Milder, Maire Milder, Boriss Loifenfeld and Andrew James David Paterson continue as members of the management board. The former chief financial officer and member of the management board Ülle Järv has been appointed the internal auditor of AS Baltika effective as of 1 May.

KEY FIGURES OF THE GROUP (Q1 2011)

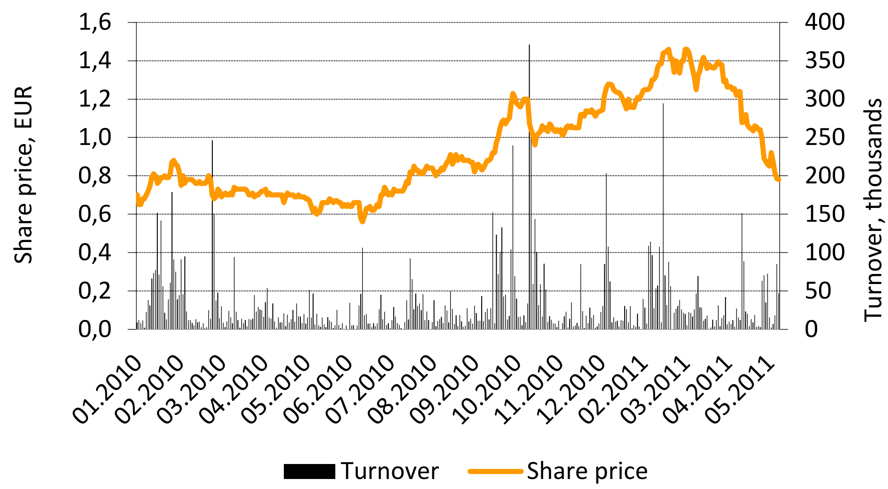
| | **31.03.2011** | **31.03.2010** | **+/-** |
|---|---|---|---|
| Revenue | 11,771 | 11,047 | 6.6% |
| Retail sales | 10,755 | 9,927 | 8.3% |
| Share of retail sales in revenue | 91% | 90% | |
| Number of stores | 116 | 131 | -11.5% |
| Sales area (sqm) | 23,961 | 26,178 | -8.5% |
| Number of employees (end of period) | 1,418 | 1,647 | -13.9% |
| Gross margin | 50.0% | 46.4% | |
| Operating margin | -17.8% | -18.1% | |
| EBT margin | -20.1% | -18.3% | |
| Net margin | -20.1% | -18.5% | |
| Current ratio | 1.4 | 0.8 | 76.0% |
| Inventory turnover | 5.08 | 3.99 | 27.3% |
| Debt to equity ratio | 192.9% | 225.5% | |
| Return on equity | -51.4% | -67.8% | |
| Return on assets | -15.4% | -17.7% | |

**Definitions of key ratios**

Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Inventory turnover = Revenue/Average inventories*
Debt to equity ratio = Interest-bearing liabilities/Equity
Return on equity (ROE) = Net profit (attributable to parent)/Average equity*
Return on assets (ROA) = Net profit (attributable to parent)/Average total assets*

*Based on 12-month average

SHARE PRICE AND TURNOVER

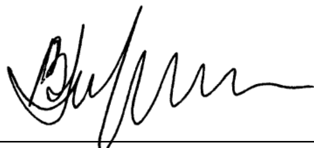


**MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT**

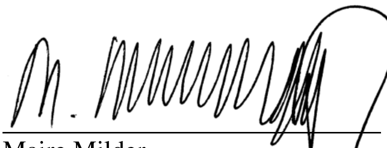
The management board confirms that the management report presents a true and fair view of all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements; includes the description of major risks and doubts influencing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

Meelis Milder
Chairman of the management board
24 May 2011

Maigi Pärnik-Pernik
Member of the management board
24 May 2011



Boriss Loifenfeld
Member of the management board
24 May 2011



Maire Milder
Member of the management board
24 May 2011

Andrew Paterson
Member of the management board
24 May 2011

# INTERIM FINANCIAL STATEMENTS

## MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

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

The management board confirms that:

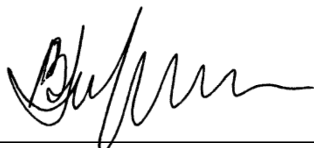
1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;

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

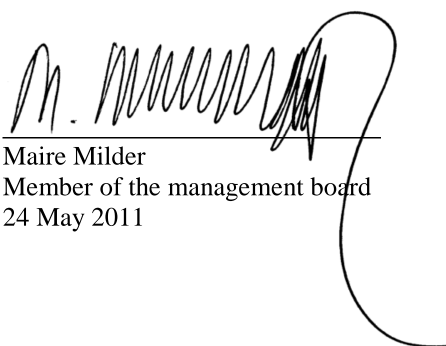
3. all group companies are going concerns.

Meelis Milder
Chairman of the management board
24 May 2011

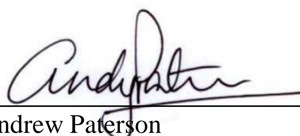
Maigi Pärnik-Pernik
Member of the management board
24 May 2011



Boriss Loifenfeld
Member of the management board
24 May 2011



Maire Milder
Member of the management board
24 May 2011



Andrew Paterson
Member of the management board
24 May 2011

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 31.03.2011 | 31.12.2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank | 3 | 262 | 823 |
| Trade and other receivables | 4 | 3,120 | 3,119 |
| Inventories | 5,13 | 10,209 | 10,804 |
| **Total current assets** | | **13,591** | **14,746** |
| **Non-current assets** | | | |
| Deferred income tax asset | | 838 | 838 |
| Other non-current assets | 6 | 761 | 780 |
| Investment property | 7 | 7,069 | 7,069 |
| Property, plant and equipment | 8 | 11,539 | 12,121 |
| Intangible assets | 9 | 3,838 | 3,898 |
| **Total non-current assets** | | **24,045** | **24,706** |
| **TOTAL ASSETS** | | **37,636** | **39,452** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Current liabilities** | | | |
| Borrowings | 10 | 2,067 | 2,125 |
| Trade and other payables | 11 | 7,588 | 6,981 |
| **Total current liabilities** | | **9,655** | **9,106** |
| **Non-current liabilities** | | | |
| Borrowings | 10 | 17,819 | 17,953 |
| Other liabilities | 11 | 4 | 37 |
| **Total non-current liabilities** | | **17,823** | **17,990** |
| **TOTAL LIABILITIES** | | **27,478** | **27,096** |
| | | | |
| **EQUITY** | | | |
| Share capital at par value | 12 | 20,129 | 20,129 |
| Share premium | | 1,366 | 1,332 |
| Reserves | 12 | 2,784 | 2,784 |
| Retained earnings | | -11,305 | -4,961 |
| Net loss for the period | | -2,364 | -6,344 |
| Currency translation differences | | -614 | -746 |
| **Total equity attributable to equity holders of the parent** | | **9,996** | **12,194** |
| Non-controlling interest | | 162 | 162 |
| **TOTAL EQUITY** | | **10,158** | **12,356** |
| **TOTAL LIABILITIES AND EQUITY** | | **37,636** | **39,452** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Q1 2011 | Q1 2010 |
|---|---|---|---|
| Revenue | 13,14 | 11,771 | 11,047 |
| Cost of goods sold | 15 | -5,880 | -5,923 |
| **Gross profit** | | **5,891** | **5,124** |
| | | | |
| Distribution costs | 16 | -7,028 | -6,949 |
| Administrative and general expenses | 17 | -743 | -706 |
| Other operating income | 18 | 6 | 587 |
| Other operating expenses | 19 | -221 | -60 |
| **Operating loss** | 13 | **-2,095** | **-2,004** |
| | | | |
| Finance income | 20 | 21 | 210 |
| Finance costs | 20 | -287 | -230 |
| | | | |
| **Loss before income tax** | | **-2,361** | **-2,024** |
| | | | |
| Income tax expense | | -3 | -3 |
| | | | |
| **Net loss** | | **-2,364** | **-2,027** |
| Loss attributable to: | | | |
| Equity holders of the parent company | | -2,364 | -2,042 |
| Non-controlling interest | | 0 | 15 |
| | | | |
| **Other comprehensive income** | | | |
| Currency translation differences | | 132 | 29 |
| | | | |
| **Total comprehensive loss** | | **-2,232** | **-1,998** |
| Comprehensive loss attributable to: | | | |
| Equity holders of the parent company | | -2,232 | -2,013 |
| Non-controlling interest | | 0 | 15 |
| | | | |
| Basic earnings per share, EUR | 21 | -0.09 | -0.11 |
| Diluted earnings per share, EUR | 21 | -0.09 | -0.11 |

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | Q1 2011 | Q1 2010 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating loss | | -2,094 | -2,004 |
| Adjustments: | | | |
| Depreciation, amortisation and impairment of PPE and intangibles | 8,9 | 667 | 763 |
| Loss (gain) from disposal of PPE and investment property | | 1 | -14 |
| Other non-monetary expenses | | 150 | -370 |
| Changes in working capital: | | | |
| Change in trade and other receivables | 4 | -7 | -466 |
| Change in inventories | 5 | 594 | 270 |
| Change in trade and other payables | 11 | 760 | 754 |
| Interest paid | | -294 | -238 |
| Income tax paid | | -120 | -293 |
| **Net cash generated from operating activities** | | **-343** | **-1,598** |
| | | | |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment, intangibles | 8,9 | -27 | -57 |
| Proceeds from disposal of property, plant and equipment | | 0 | 1,118 |
| **Net cash used in investing activities** | | **-27** | **1,061** |
| | | | |
| **Financing activities** | | | |
| Received borrowings | 10 | 93 | 639 |
| Repayments of borrowings | 10 | -284 | -440 |
| Change in bank overdraft | 10 | 33 | 38 |
| Repayments of finance lease and other liabilities | | -51 | -66 |
| Dividend paid for preference shares | | 0 | -0.2 |
| Bonds transactions | | -1 | 0 |
| **Net cash generated from financing activities** | | **-210** | **171** |
| Effect of exchange gains (losses) on cash and cash equivalents | | 19 | 210 |
| **Total cash flows** | | **-561** | **-156** |
| | | | |
| **Cash and cash equivalents at the beginning of the period** | 3 | **823** | **385** |
| **Cash and cash equivalents at the end of the period** | 3 | **262** | **229** |
| | | | |
| **Change in cash and cash equivalents** | | **-561** | **-156** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Reserves | Retained earnings | Currency translation reserve | Total | Non-controlling interest | Total equity |
| **Balance at 31.12.2009** | **14,473** | **67** | **2,784** | **-4,961** | **-601** | **11,762** | **162** | **11,924** |
| Profit (loss) for the period | 0 | 0 | 0 | -2,042 | 0 | -2,042 | 15 | -2,027 |
| Other comprehensive income (loss) | 0 | 0 | 0 | 0 | 29 | 29 | 0 | 29 |
| Total comprehensive income (loss) | 0 | 0 | 0 | -2,042 | 29 | -2,013 | 15 | -1,998 |
| **Balance at 31.03.2010** | **14,473** | **67** | **2,784** | **-7,003** | **-572** | **9,749** | **177** | **9,926** |
| | | | | | | | | |
| **Balance at 31.12.2010** | **20,129** | **1,332** | **2,784** | **-11,305** | **-746** | **12,194** | **162** | **12,356** |
| Profit (loss) for the period | 0 | 0 | 0 | -2,364 | 0 | -2,364 | 192 | -2,172 |
| Other comprehensive income (loss) | 0 | 0 | 0 | 0 | 132 | 132 | 0 | 132 |
| Total comprehensive income (loss) | 0 | 0 | 0 | -2,364 | 132 | -2,232 | 0 | -2,232 |
| Equity-settled share-based transactions | 0 | 34 | 0 | 0 | 0 | 34 | 0 | 34 |
| **Balance at 31.03.2011** | **20,129** | **1,366** | **2,784** | **-13,669** | **-614** | **9,996** | **162** | **10,158** |

## NOTES TO CONSOLIDATED INTERIM REPORT

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

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

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

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

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

### NOTE 2 Financial risks

In its daily activities, the Group is exposed to different types of risk management, which is an important and integral part of the business activities of the company. The company's ability to identify, measure and control different risks is a key variable for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks.

The basis for risk management at the Group are the requirements set by the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, adherence to generally accepted accounting principles, as well as the company's internal regulations and risk policies. Overall risk management includes identification, measurement and control of risks. The management of the Parent company plays a major role in managing risks and approving risk procedures. The supervisory council of the Group's Parent company supervises the management's risk management activities.

#### Market risk

*Foreign exchange risk*

Sales in foreign currencies constitute 68% of the revenues of the Group and are denominated in LTL (Lithuanian lit), LVL (Latvian lat), UAH (Ukrainian hryvnia), PLN (Polish zloty), RUR (Russian rouble), for the foreign subsidiaries of the Group. The majority of raw materials used in production is acquired from countries located outside of European Union. The major foreign currency for purchases is USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled only in euros. As the Group's main revenues arise from retail sales, the prices of goods in the markets are fixed in a local currency and consequently, changes in foreign currency exchange rates directly affect the Group's revenue through the pricing of goods at the stores in those markets. In addition, a change in the economic environment and relative appreciation/depreciation of a local currency may greatly affect the purchasing power of customers in the market of the respective segment.

The Group's results are open to fluctuations in foreign currency rates against euro in those countries where AS Baltika has subsidiaries. The changes in average foreign currency rates against euro[i] in the reporting period were the following: Russian rouble +3.09% (2010: +6.77% ), Ukrainian hryvnia +2.15% (2010: -4.76%), Polish zloty +0.27% (2010: +11.10% ) and Latvian lat +0.54% (2010: -0.39%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was +1.12% (2010: -6.15%).

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

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

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

No instruments were used to hedge foreign currency risks in 2011 and 2010. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities measured in the same currency. Additionally the Group uses the option to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

*Interest rate risk*

As the Group's cash and cash equivalents carry fixed interest rate, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. The exposure to the fair value interest rate risk of the Group's borrowings is insignificant according to the management's estimate as the borrowings with fixed interest rate have short maturities, expiring within a year, or have no term (overdraft). Interest rate risk is primarily caused by the potential fluctuations of Euribor and the changing of the average interest rates of banks.

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

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

*Price risk*

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

**Credit risk**

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

*Cash and cash equivalents*

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

*Trade receivables*

The most significant credit risk concentration to the Group arises from the wholesale activities in Eastern Europe. For the wholesale customers, their financial position, past experience and other factors are taken into consideration as the basis for credit control. According to the Group's credit policy, no collaterals to secure the trade receivables are required from counterparties but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

At 31 March 2011 the maximum exposure to credit risk from trade receivables (Note 4) amounted to 1,280 thousand euros (31 December 2010: 1,253 thousand euros) on a net basis after the allowances. The trade receivables from Eastern European clients amounted to 813 thousand euros (31 December 2010: 883 thousand euros), including balances with the Eastern European wholesale partners of 788 thousand euros (31 December 2010: 850 thousand euros) and balances with retail customers for bank card payments of 25 thousand euros (31 December 2010: 33 thousand euros).

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

Sales to retail customers are settled in cash or using major credit cards, thus no credit risk is involved except the risk arising from financial institutions selected as approved counterparties. Credit risks arising from the Group's seasonal production and sales cycle are temporary.

**Liquidity risk**

Liquidity risk is the potential risk that the Group has limited or insufficient financial (cash) resources to meet the obligations arising from the Group's activities. The volume of financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its

existing borrowings at terms and conditions similar to those applied to earlier transactions. Management monitors the sufficiency of cash and cash equivalents to settle the liabilities and finance the Group's strategic goals on a regular basis using rolling cash forecasts.

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, monitoring of receivables and purchase contracts. A Group current account/overdraft facility is in use for more flexible management of liquid assets, enabling Group companies to use the Group's resources up to the limit established by the Parent company.

**Financial liabilities by maturity at 31 March 2011**

| | | Undiscounted cash flows[1] | | |
|---|---|---|---|---|
| | **Carrying amount** | **1-9 months[2]** | **1-5 years** | **Total** |
| Bank borrowings (Note 10)[3] | 19,287 | 2,250 | 20,187 | 22,437 |
| Finance lease liabilities (Note 10) | 308 | 190 | 152 | 342 |
| Trade payables (Note 11) | 4,994 | 4,994 | 0 | 4,994 |
| Other financial liabilities (Note 11)[4] | 254 | 254 | 0 | 254 |
| **Total** | **24,843** | **7,688** | **20,339** | **28,027** |

**Financial liabilities by maturity at 31 December 2010**

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

[1]For interest bearing borrowings carrying floating interest rate based on Euribor, the spot rate has been used.
[2]Financial liabilities due in current financial year.
[3]Overdraft facilities are shown under bank borrowings payable within 1-5 years in the amount of maximum exposure available for the Group.
[4]Other financial liabilities include accrued expenses in amount of 57 thousand euros (31 December 2010: 105 thousand euros) and dividends liabilities of preference shares in amount of 197 thousand euros (31 December 2010: 195 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 the one hand and adequately consider local conditions on the other.

As improvement of flexibility plays an important role in increasing the Group's competitiveness, continuous efforts are being made to shorten the cycles of business processes and minimise potential deviations. This also helps to improve the relative level and structure of inventories and the fashion collections' meeting consumer expectations.

The most important operating risk arises from the Group's inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted. Another important risk is that the Group's information technology system is unable to ensure sufficiently fast and accurate transmission of information for decision-making purposes.

To ensure good collections, the Group employs a strong team of designers who monitor and are aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have

been set up at the Group which help daily monitoring of sales and balance of inventories and using the information in subsequent activities. In order to avoid supply problems, cooperation with the world's leading procurement intermediaries as well as fabric manufacturers has been expanded.

The unavoidable risk factor in selling clothes is the weather. Collections are created and sales volumes as well as timing of sales is planned under the assumption that regular weather conditions prevail in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

*Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

**Gearing ratios of the Group**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Total borrowings (Note 10) | 19,595 | 19,821 |
| Cash and bank (Note 3) | -262 | -823 |
| Net debt | 19,333 | 18,998 |
| Total equity | 10,158 | 12,356 |
| Total capital | 29,491 | 31,354 |
| **Gearing ratio** | **66%** | **61%** |

**Fair value**

The Group estimates that the fair values of the assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated balance sheet at 31 March 2011 and 31 December 2010. As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. Therefore, management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The carrying amount less an impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**NOTE 3 Cash and bank**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Cash in hand | 150 | 301 |
| Cash at bank | 112 | 452 |
| Short-term deposits | 0 | 70 |
| **Total** | **262** | **823** |

**Cash and bank by currency**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| EUR (euro) | 82 | 97 |
| RUB (Russian rouble) | 48 | 114 |
| PLN (Polish zloty) | 44 | 146 |
| LTL (Lithuanian lit) | 43 | 94 |
| UAH (Ukrainian hryvnia) | 26 | 164 |
| LVL (Latvian lat) | 19 | 53 |
| EEK (Estonian kroon) | 0 | 155 |
| **Total** | **262** | **823** |

## NOTE 4 Trade and other receivables

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Trade receivables, net | 1,280 | 1,253 |
| Other prepaid expenses | 856 | 888 |
| Tax prepayments and tax reclaims, thereof | 779 | 684 |
| Value added tax | 774 | 662 |
| Other taxes | 5 | 22 |
| Other current receivables | 205 | 294 |
| **Total** | **3,120** | **3,119** |

**Trade receivables**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Trade receivables, gross | 1,314 | 1,287 |
| Allowance for impairment of trade receivables | -34 | -34 |
| **Trade receivables, net** | **1,280** | **1,253** |

**Trade receivables (net) by due date**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Not due | 1,196 | 1,206 |
| Up to 1 month past due | 65 | 41 |
| 1-3 months past due | 18 | 2 |
| Over 6 months past due | 1 | 4 |
| **Total** | **1,280** | **1,253** |

**Trade receivables (net) by denominating currency**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| EUR (euro) | 1,209 | 901 |
| LVL (Latvian lat) | 27 | 57 |
| RUB (Russian rouble) | 25 | 28 |
| LTL (Lithuanian lit) | 16 | 36 |
| PLN (Polish zloty) | 3 | 6 |
| EEK (Estonian kroon) | 0 | 220 |
| UAH (Ukrainian hryvnia) | 0 | 5 |
| **Total** | **1,280** | **1,253** |

**NOTE 5 Inventories**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Fabrics and accessories | 1,324 | 1,344 |
| Allowance for impairment of fabrics and accessories | -13 | -13 |
| Work-in-progress | 81 | 72 |
| Finished goods and goods purchased for resale | 8,682 | 9,409 |
| Allowance for impairment of finished goods and goods purchased for resale | 0 | -320 |
| Prepayments to suppliers | 135 | 312 |
| **Total** | **10,209** | **10,804** |

**NOTE 6 Other non-current assets**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Non-current lease prepayments | 371 | 390 |
| Other long-term receivables | 390 | 390 |
| **Total** | **761** | **780** |

**NOTE 7 Investment property**

| | 2011 | 2010 |
|---|---|---|
| **Balance at 1 January** | **7,069** | **6,602** |
| **Balance at 31 March** | **7,069** | **6,602** |

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

**NOTE 8 Property, plant and equipment**

| | Land and construction rights | Buildings and structures | Machinery and equipment | Other fixtures | Construction in progress | Prepayments | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2009** | | | | | | | |
| **Acquisition cost** | **11** | **14,524** | **6,375** | **7,728** | **7** | **11** | **28,656** |
| Accumulated depreciation | 0 | -2,784 | -4,494 | -4,559 | 0 | 0 | -11,837 |
| **Net book amount** | **11** | **11,740** | **1,881** | **3,169** | **7** | **11** | **16,819** |
| | | | | | | | |
| Additions | 0 | 2 | 12 | 28 | 7 | 0 | 49 |
| Disposals | -5 | -997 | -55 | -36 | 0 | 0 | -1,093 |
| Reclassification | 0 | 29 | 11 | -37 | -4 | 0 | -1 |
| Depreciation | 0 | -265 | -126 | -293 | 0 | 0 | -684 |
| Currency translation differences[1] | 0 | 65 | 41 | 109 | 1 | 1 | 217 |
| | | | | | | | |
| **At 31 March 2010** | | | | | | | |
| **Acquisition cost** | **6** | **13,460** | **5,914** | **7,801** | **11** | **12** | **27,204** |
| Accumulated depreciation | 0 | -2,885 | -4,149 | -4,862 | 0 | 0 | -11,896 |
| **Net book amount** | **6** | **10,575** | **1,765** | **2,939** | **11** | **12** | **15,308** |

| | Land and construction rights | Buildings and structures | Machinery and equipment | Other fixtures | Construction in progress | Prepayments | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2010** | | | | | | | |
| **Acquisition cost** | **0** | **11,607** | **5,861** | **6,979** | **19** | **13** | **24,479** |
| Accumulated depreciation | 0 | -3,005 | -4,445 | -4,908 | 0 | 0 | -12,358 |
| **Net book amount** | **0** | **8,602** | **1,416** | **2,071** | **19** | **13** | **12,121** |
| | | | | | | | |
| Additions | 0 | 4 | 18 | 6 | 0 | 1 | 29 |
| Disposals | 0 | 0 | -11 | -3 | -2 | 0 | -16 |
| Reclassification | 0 | -9 | 0 | 17 | -8 | 0 | 0 |
| Depreciation | 0 | -210 | -124 | -256 | 0 | 0 | -590 |
| Currency translation differences[1] | 0 | -8 | 5 | 1 | -1 | -2 | -5 |
| | | | | | | | |
| **At 31 March 2011** | | | | | | | |
| **Acquisition cost** | **0** | **11,589** | **5,855** | **6,922** | **8** | **12** | **24,386** |
| Accumulated depreciation | 0 | -3,210 | -4,551 | -5,086 | 0 | 0 | -12,847 |
| **Net book amount** | **0** | **8,379** | **1,304** | **1,836** | **8** | **12** | **11,539** |

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

**NOTE 9 Intangible assets**

| | Licenses, software and other | Trademarks | Prepayments | Goodwill | Total |
|---|---|---|---|---|---|
| **At 31 December 2009** | | | | | |
| **Acquisition cost** | **2,700** | **643** | **0** | **1,895** | **5,238** |
| Accumulated depreciation | -1,160 | -107 | 0 | 0 | -1,267 |
| **Net book amount** | **1,540** | **536** | **0** | **1,895** | **3,971** |
| | | | | | |
| Additions | 1 | 0 | 7 | 0 | 8 |
| Disposals | -11 | 0 | 0 | 0 | -11 |
| Amortisation | -70 | -8 | 0 | 0 | -78 |
| Currency translation differences[1] | 16 | 0 | 0 | 167 | 183 |
| | | | | | |
| **At 31 March 2010** | | | | | |
| **Acquisition cost** | **2,707** | **643** | **7** | **2,062** | **5,419** |
| Accumulated depreciation | -1,230 | -115 | 0 | 0 | -1,345 |
| **Net book amount** | **1,477** | **528** | **7** | **2,062** | **4,074** |

| | Licenses, software and other | Trade-marks | Prepayments | Goodwill | Total |
|---|---|---|---|---|---|
| **At 31 December 2010** | | | | | |
| **Acquisition cost** | **2,774** | **643** | **23** | **2,048** | **5,488** |
| Accumulated depreciation | -1,451 | -139 | 0 | 0 | -1,590 |
| **Net book amount** | **1,323** | **504** | **23** | **2,048** | **3,898** |
| | | | | | |
| Additions | 3 | 0 | 0 | 0 | 3 |
| Disposals | -1 | 0 | 0 | 0 | -1 |
| Reclassification | 13 | 0 | -13 | 0 | 0 |
| Depreciation | -76 | -8 | 0 | 0 | -84 |
| Currency translation differences[1] | 1 | 0 | 0 | 21 | 22 |
| | | | | | |
| **At 31 March 2011** | | | | | |
| **Acquisition cost** | **2,829** | **643** | **10** | **2,069** | **5,551** |
| Accumulated depreciation | -1,566 | -147 | 0 | 0 | -1,713 |
| **Net book amount** | **1,263** | **496** | **10** | **2,069** | **3,838** |

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

## NOTE 10 Borrowings

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| **Current borrowings** | | |
| Current portion of non-current bank loans | 1,592 | 1,697 |
| Current bank loans | 93 | 0 |
| Current finance lease liabilities | 185 | 233 |
| Liability component of preference shares | 197 | 195 |
| **Total** | **2,067** | **2,125** |
| | | |
| **Non-current borrowings** | | |
| Non-current bank loans | 17,602 | 17,747 |
| Non-current finance lease liabilities | 123 | 144 |
| Convertible bonds | 94 | 62 |
| **Total** | **17,819** | **17,953** |
| | | |
| **Total borrowings** | **19,886** | **20,078** |

During the reporting period, the Group made loan repayments in the amount of 284 thousand euros) (2010: 440 thousand euros). Loan interest expense of the reporting period amounted to 294 thousand euros (2010: 238 thousand euros).

**Bank loans of the Group at 31 December 2010**

| | Carrying amount | Average risk premium |
|---|---|---|
| Borrowings at floating interest rate (based on 6-month Euribor) | 19,287 | 4.58% |
| Liability component of preference shares | 197 | 10.00% |
| **Total** | **19,484** | |

**Bank loans of the Group at 31 December 2010**

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

**NOTE 11 Trade and other payables**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | 4,994 | 4,355 |
| Tax liabilities, thereof | 1,332 | 1,610 |
| Personal income tax | 188 | 158 |
| Social security taxes | 495 | 429 |
| Value added tax | 601 | 840 |
| Corporate income tax liability | 0 | 117 |
| Other taxes | 48 | 66 |
| Payables to employees[1] | 1,089 | 767 |
| Other accrued expenses[2] | 57 | 105 |
| Customer prepayments | 15 | 40 |
| Other current payables | 101 | 104 |
| **Total** | **7,588** | **6,981** |
| **Non-current liabilities** | | |
| Other liabilities[3] | 4 | 37 |

[1]Payables to employees consist of accrued wages and salaries and vacation accrual.

[2]Accrued expenses consist of dividend payable in the amount of 1 thousand euros (31 December 2010: 1 thousand euros), interest payable in the amount of 18 thousand euros (31 December 2010: 28 thousand euros) and other accrued expenses in the amount of 38 thousand euros (31 December 2010:769 thousand euros).

[3]Other non-current liabilities consist of deferred income.

**Trade payables by denominating currency**

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| EUR (euro) | 3,440 | 933 |
| USD (US dollar) | 983 | 1,705 |
| LTL (Lithuanian lit) | 211 | 82 |
| RUB (Russian rouble) | 166 | 125 |
| PLN (Polish zloty) | 117 | 164 |
| LVL (Latvian lat) | 53 | 44 |
| EEK (Estonian kroon) | 0 | 1,280 |
| Other currencies | 24 | 22 |
| **Total** | **4,994** | **4,355** |

## NOTE 12 Equity

### Share capital

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Share capital | 20,129 | 20,129 |
| Number of shares[1] | 31,494,850 | 31,494,850 |
| Nominal value of shares (EUR) | 0.64 | 0.64 |
| Statutory reserve | 1,192 | 1,192 |
| Revaluation surplus | 1,592 | 1,592 |

[1]Shares comprise ordinary shares and preference shares of 27,494,850 pieces and 4,000,000 pieces respectively. The 27,494,850 ordinary shares are listed on the Tallinn Stock Exchange, the preference shares are unlisted.

Under the Articles of Association, the company's minimum share capital is 6,391 thousand euros and the maximum share capital is 25,565 thousand euros. All shares have been paid for.

The preference shares shall grant its owner the preferential right to receive dividends in the amount of 10% annually within two years from the issuance of the preferred shares as stated in the Articles of Association. Dividends on preference shares are recognised in the balance sheet as liabilities.

### Change in the number of shares

| | Issue | Number of shares |
|---|---|---|
| **Number of shares on 31.12.2009** | | **22,644,850** |
| Issued 21.06.2010 | Issue of ordinary shares | 8,850,000 |
| **Number of shares on 31.12.2010** | | **31,494,850** |
| **Number of shares on 31.03.2011** | | **31,494,850** |

### Shareholders at 31 March 2011 (ordinary shares)

| | Number of shares | Holding |
|---|---|---|
| BMIG OÜ | 4,624,860 | 16.82% |
| Skandinaviska Enskilda Banken Ab clients | 3,261,033 | 11.86% |
| ING Luxembourg S.A. | 3,250,000 | 11.82% |
| E. Miroglio S.A. | 3,000,000 | 10.91% |
| Svenska Handelsbanken clients | 1,965,000 | 7.15% |
| Members of management and supervisory boards and persons related to them | | |
| Meelis Milder | 726,336 | 2.64% |
| Maire Milder | 316,083 | 1.15% |
| Boriss Loifenfeld | 200,366 | 0.73% |
| Andrew Paterson | 11,000 | 0.04% |
| Other shareholders | 10,140,172 | 36.88% |
| **Total** | **27,494,850** | **100.00%** |

### Shareholders at 31 December 2010 (ordinary shares)

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

The 27,494,850 ordinary shares of the Parent company are listed on the Tallinn Stock Exchange. The Parent company does not have a controlling shareholder or any shareholders jointly controlling the entity. The investment company OÜ BMIG is under the control of the management board members of the Parent company.

**NOTE 13 Segments**

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

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

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

The Parent company's management board assesses the performance of the operating segments based on a measure of external revenue and segment profit. External revenue amounts provided to management board are measured in a manner consistent with that of the financial statements. The segment profit is an internal measure used in the internally generated reports to assess the performance of the segments and comprises segment's gross profit less operating expenses directly attributable to the segment, except for other operating income and expenses. The amounts provided to management board with respect to inventories are measured in a manner consistent with that of the financial statements. The segment inventories include those operating inventories directly attributable to the segment or those that can be allocated to the particular segment based on the operations of the segment and the physical location of the inventories.

**The segment information provided to the management board for the reportable segments for the period ended at 31 March 2011 and at 31 December 2010 is as follows**

| | Retail Baltic region | Retail Eastern Europe | Retail Central Europe | Whole-sale[1] | Real estate manage-ment | Total |
|---|---|---|---|---|---|---|
| **3m 2011 and at 31 March 2011** | | | | | | |
| Revenue (from external customers) | 6,416 | 4,037 | 302 | 906 | 110 | 11,771 |
| Segment profit (loss)[1] | 266 | -343 | -114 | 207 | 99 | 115 |
| Incl. depreciation and amortisation | -266 | -189 | -28 | -59 | 0 | -542 |
| Inventories of segments | 3,136 | 1,845 | 138 | 0 | 0 | 5,119 |
| **3m 2010 and at 31 March 2010** | | | | | | |
| Revenue (from external customers) | 5,776 | 3,808 | 343 | 1,035 | 85 | 11,047 |
| Segment profit (loss)[1] | -76 | -242 | -165 | 167 | 45 | -271 |
| Incl. depreciation and amortisation | -315 | -212 | -36 | -13 | 0 | -576 |
| Inventories of segments | 3,333 | 2,072 | 169 | 176 | 0 | 5,750 |

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

**Reconciliation of segment profit to consolidated operating profit**

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Total profit for reportable segments | 115 | -271 |
| Unallocated expenses[1]: | | |
| Distribution costs | -1,252 | -1,553 |
| Administrative and general expenses | -743 | -706 |
| Other operating income (expenses), net | -215 | 526 |
| **Operating profit (loss)** | **-2,095** | **-2,004** |

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

**Reconciliation of segment inventories to consolidated inventories**

| | 31.03.2011 | 31.12.2010 | 31.03.2010 |
|---|---|---|---|
| Total inventories of segments | 5,119 | 5,043 | 5,750 |
| Inventories in Parent company and production companies | 5,090 | 5,761 | 6,007 |
| **Inventories on balance sheet** | **10,209** | **10,804** | **11,757** |

## NOTE 14 Revenue

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Sale of goods | 11,600 | 10,955 |
| Lease revenue | 110 | 85 |
| Sale of sewing services | 54 | 0 |
| Other | 7 | 7 |
| **Total** | **11,771** | **11,047** |

## NOTE 15 Cost of goods sold

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Materials and supplies | 5,083 | 4,881 |
| Payroll costs in production | 787 | 889 |
| Operating lease expenses | 171 | 154 |
| Other production costs | 96 | 119 |
| Depreciation of assets used in production (Note 8,9) | 58 | 65 |
| Change in inventories | 5 | 135 |
| Change in allowance for inventories | -320 | -320 |
| **Total** | **5,880** | **5,923** |

## NOTE 16 Distribution costs

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Operating lease expenses | 2,768 | 2,643 |
| Payroll costs | 2,441 | 2,471 |
| Depreciation and amortisation (Note 8,9) | 491 | 604 |
| Advertising expenses | 311 | 289 |
| Fuel, heating and electricity costs | 190 | 169 |
| Financial and management fees | 90 | 62 |
| Fees for card payments | 85 | 74 |
| Municipal services and security expenses | 71 | 136 |
| Information technology expenses | 63 | 42 |
| Freight costs | 62 | 59 |
| Impairment of trade receivables | 61 | 0 |
| Travel expenses | 48 | 47 |
| Communication expenses | 45 | 47 |
| Renovation expenses of retail outlets | 34 | 6 |
| Bank fees | 27 | 32 |
| Packaging costs | 21 | 11 |
| Training expenses | 14 | 12 |
| Expenses for uniforms | 1 | 5 |
| Other sales expenses[1] | 205 | 240 |
| **Total** | **7,028** | **6,949** |

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

## NOTE 17 Administrative and general expenses

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Payroll costs[1] | 332 | 317 |
| Depreciation and amortisation (Note 8,9) | 95 | 90 |
| Bank fees | 74 | 57 |
| Information technology expenses | 64 | 63 |
| Fuel, heating and electricity expenses | 27 | 26 |
| Operating lease expenses | 13 | 16 |
| Training expenses | 13 | 2 |
| Communication expenses | 10 | 13 |
| Sponsorship | 9 | 6 |
| Municipal services and security expenses | 5 | 7 |
| Travel expenses | 3 | 0 |
| Other administrative expenses[2] | 98 | 109 |
| **Total** | **743** | **706** |

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount 34 thousand euros (2010: 0 thousand euros).
[2]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting, management, consulting and other services.

## NOTE 18 Other operating income

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Foreign exchange income | 0 | 304 |
| Gain from sale of non-current assets | 0 | 26 |
| Other operating income[1] | 6 | 257 |
| **Total** | **6** | **587** |

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

## NOTE 19 Other operating expenses

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Foreign exchange losses | 189 | 0 |
| Loss from sale and writing off of non-current assets | 0 | 11 |
| Fines, penalties and tax interest | 16 | 26 |
| Representation costs | 1 | 1 |
| Other operating expenses | 15 | 22 |
| **Total** | **221** | **60** |

## NOTE 20 Finance income and costs

| | 3m 2011 | 3m 2010 |
|---|---|---|
| Interest costs | -286 | -230 |
| Foreign exchange income (losses) | 20 | 210 |
| Other finance income | 1 | 0 |
| Other finance costs | -1 | 0 |
| **Total** | **-266** | **-20** |

## NOTE 21 Earnings per share

### Basic earnings per share

| | | 3m 2011 | 3m 2010 |
|---|---|---|---|
| Weighted average number of shares | pcs | 27,494,850 | 18,644,850 |
| Net loss attributable to equity holders of the parent | | -2,346 | -2,042 |
| **Basic earnings per share** | **EUR** | **-0.09** | **-0.11** |

### Diluted earnings per share

| | | 3m 2011 | 3m 2010 |
|---|---|---|---|
| Weighted average number of shares | pcs | 27,494,850 | 18,644,850 |
| Net loss attributable to equity holders of the parent | | -2,346 | -2,042 |
| **Diluted earnings per share** | **EUR** | **-0.09** | **-0.11** |

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to earnings as at 31 March 2011 and 31 December 2010, diluted earnings per share equal basic earnings per share.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in first quarter of 2011 was 1.31 euros (2010: 0.75 euros).

## NOTE 22 Related parties

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the financial and management decisions of the other one in accordance with IAS 24, Related Party Disclosures. Not only the legal form of the transactions and mutual relationships, but also their actual substance has been taken into consideration when defining related parties.

For the reporting purposes in consolidated annual statements of the Group, the following entities have been considered related parties:

- owners, that have either significant influence or control, generally implying an ownership interest of 20% or more;
- members of the management, the management board and the supervisory council;
- close family members of the persons stated above;
- entities under the control or significant influence of the members of the management board and supervisory council.

### Transactions with related parties

| | 3m 2011 | 3m 2010 |
|---|---|---|
| | Purchases | Purchases |
| Purchases of goods | 120 | 0 |
| Purchases of services | 55 | 45 |
| **Total** | **175** | **45** |

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

### Balances with related parties

| | 31.03.2011 | 31.12.2010 |
|---|---|---|
| Trade payables | 154 | 86 |

### Convertible bonds

The annual general meeting held on 18 June 2009 decided that 1,850,000 convertible bonds (G-bonds) with a par value of 0.10 kroons (0.0064 euros) should be issued within the framework of the Group’s management incentive program. Each bond entitles its holder to subscribe for one share of the company with a nominal value of 10 kroons (0.64 euros). The share subscription period for G-bonds shall be from 1 July 2012 until 31 December 2012. The share subscription price is 12 kroons (0.77 euros). Totally were subscribed 1,842 500 bonds.

| | Issue date | Bond conversion period | Number of convertible bonds 31.03.2011 | Number of convertible bonds 31.12.2010 |
|---|---|---|---|---|
| G-Bond | 30.06.2009 | 01.07.2012-31.12.2012 | 1,842,500 | 1,842,500 |

## NOTE 23 Events occurring after the reporting period

### Annual general meeting

The annual general meeting of AS Baltika's shareholders that convened on 11 May 2011, resolved to cancel 4,000,000 preference shares and convert them into ordinary shares.

The general meeting decided to convert the share capital of the Company and the nominal value of the shares into euros as on 1 January 2011, the Republic of Estonia joined the Euro area. In order to undertake the conversion of the share capital from kroons into euros, the general meeting decided to increase the share capital from the equity without any monetary payments (fund emission) by 1,918 thousand euros. The new amount of the share capital of the Company is 22,046 thousand euros. Concurrently with the conversion of the share capital of the Company into euros, the general meeting resolved to undertake the conversion of the present nominal value of 10 kroons into euros and the increase of the nominal value by 0.06 euros for each share. The new nominal value of the share shall be 0.7 euro.

The annual general meeting also resolved to increase the share capital of AS Baltika by issuing additionally 3,150,000 ordinary shares with a par value of 0.70 euro with the issuance price of 1 euro. The amount of premium is 0.30 euro per share.