# AS BALTIKA

## Consolidated interim report for the first quarter 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 – 31 March 2013 |

## CONTENTS

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## BRIEF DESCRIPTION OF BALTIKA GROUP

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating in the Baltic countries and Eastern Europe. Baltika Group operates 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 31 March 2013 the Group employed 1,299 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 31 March 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 “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, FIRST QUARTER 2013

Baltika improved in 2013 first quarter result by 440 thousand euros. Quarter's net loss was 603 thousand euros, which signifies compared to 1,043 thousand euros in prior year an improvement of 42%.

Improvement in result was achieved owing to 7% sales growth and in a situation where first months of the year sales have been more volatile and susceptible to weather then in year 2012. Most fashion retailers were impacted by unusual cold March, which either decreased or postponed client need to purchase spring clothing. Meanwhile quarters first months January and February were strong and met the sales plan.

Retail sales grew in all Baltic countries: Estonia 17%, Latvia 9% and Lithuania 6%. Sales decreased in Russia and Ukraine, which was due to decrease in sales area; sales efficiency grew on all of Baltika's markets, reaching on average 8%.

Quarter gross margin improved by 0.2 percentage points compared to same period in prior year. Baltika's continued cost control also had a positive effect: operating expense to revenue ratio improved by 2 percentages to 55%.

Management believes based on current results that company will achieve financial targets set for year 2013.

**Highlights from the period until making quarterly report public**

- Baltika has opened in the first quarter new concept flagship stores of its leading brand Monton in shopping centres of Baltic capitals: Viru Center in Tallinn, Galerija Centrs in Riga and Akropolis in Vilnius.

- Baltika's newest brand Bastion showed its spring-summer collection designed for the first time in Baltika on 30 January.

- Monton e-store montonfashion.com had its first anniversary in February and compared to the launch period sales have increased in comparable months nearly three times.

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

- In line with the 2013 objective to increase international competitiveness of all brands in Baltika Group brand portfolio, company participates in project Design Bulldozer. Design Bulldozer is a pilot project running until 2014, which is originated by Estonian Design Bureau, Ministry of Economic Affairs and Communications and Enterprise Estonia to increase the capabilities and export potential of Estonian companies.

- In cooperation with Dan Pearlman agency Baltika started development of new store concepts for Baltman and Bastion brands.

- Ivo Nikkolo appointed as new brand manager Kaie Kaas, who has long-term experience working in Baltika Group and is leading also Bastion brand.

- Annual general meeting of shareholders that took place on 10 May approved the 2012 Annual report and profit allocation. AS PricewaterhouseCoopers was elected as the auditor for financial year 2013.

- 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

Baltika Group First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

Russia and in Estonia mixed brand store Moetänav. Ivo Nikkolo store was opened in Galleria Riga centre in Latvia.

## REVENUE

Baltika revenue grew by 4% in the first quarter. Rental income decreased by 166 thousand euros due to sale of Baltika Quarter property, which impacts the growth figure negatively by 1.4%. Large increase in retail and diminished rental income signified that retail sales proportion grew to 93% of total revenue.

### Revenue by activity

| EUR thousand | Q1 2013 | Q1 2012 | +/- |
|---|---|---|---|
| Retail | 12,289 | 11,531 | 7% |
| Wholesale and e-com | 874 | 846 | 3% |
| Rent | 2 | 168 | -99% |
| Other | 21 | 98 | -79% |
| **Total** | **13,186** | **12,643** | **4%** |

### Retail

Despite unusual cold spring that impacted not only Baltika, but also other fashion retailers, Baltika managed to increase retail sales by 7%. First quarter retail revenue increased by 758 thousand euros and totalled 12,289 thousand euros.

New concept flagship stores were opened in Baltic capitals in the first quarter. Existing stores either changed location or were renovated, which meant significant stores (approximately 5% of sales) being closed for up to 4 weeks.

The growth engine continued to be the Baltics that made up 68% of total retail sales in the first quarter. The biggest growth was in Estonia with the addition of Bastion stores. Sales decrease in absolute numbers in Russia and Ukraine are due to the stores closed during 2012, with which the average sales area has decreased significantly.

### Retail sales by market

| EUR thousands | Q1 2013 | Q1 2012 | +/- | Share |
|---|---|---|---|---|
| Estonia | 3,863 | 3,305 | 17% | 31% |
| Lithuania | 2,464 | 2,316 | 6% | 20% |
| Russia | 2,379 | 2,430 | -2% | 19% |
| Latvia | 2,072 | 1,895 | 9% | 17% |
| Ukraine | 1,511 | 1,585 | -5% | 12% |
| **Total** | **12,289** | **11,531** | **7%** | **100%** |

### Stores and sales area

In the first quarter Baltika renovated and opened new concept flagship stores of Monton in all capitals of Baltic countries. In addition second new Monton store was opened in Russia – in OzMall shopping centre in Krasnodar.

### Stores by market

| | 31 March 2013 | 31 March 2012 | Average area change* |
|---|---|---|---|
| Estonia | 35 | 29 | 11% |
| Lithuania | 27 | 28 | -3% |
| Russia | 18 | 19 | -7% |
| Latvia | 16 | 15 | -1% |
| Ukraine | 16 | 17 | -13% |
| **Total stores** | **112** | **108** | **-1%** |
| **Total sales area, sqm** | **22,193** | **21,807** | |

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

Baltika Group First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

Sales efficiency increased in all Baltika's markets. Sales efficiency in Estonia is impacted by addition of Bastion stores, without Bastion the figure would have been 9%.

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

| | Q1 2013 | Q1 2012 | +/- |
|---|---|---|---|
| Estonia | 204 | 195 | 5% |
| Lithuania | 152 | 139 | 9% |
| Russia | 202 | 192 | 5% |
| Latvia | 210 | 191 | 10% |
| Ukraine | 166 | 155 | 7% |
| **Total** | **186** | **173** | **8%** |

Sales efficiency growth in local currency in the first quarter was 7% in Russia and 10% in Ukraine.

### Brands

The newest brand in Baltika Group is Bastion that was acquired in December 2012. The brand introduced it's spring-summer collection first time on Baltika fashion show on season launch event on 30 January, where it already received positive feedback.

**Retail revenue by brand**

| EUR thousands | Q1 2013 | Q1 2012 | +/- | Share |
|---|---|---|---|---|
| Monton | 5,990 | 6,037 | -1% | 49% |
| Mosaic | 3,907 | 3,531 | 11% | 32% |
| Baltman | 1,027 | 975 | 5% | 8% |
| Ivo Nikkolo | 948 | 965 | -2% | 8% |
| Bastion | 334 | 0 | 0% | 3% |
| Other | 83 | 23 | 261% | 1% |
| **Total** | **12,289** | **11,531** | **7%** | **100%** |

Mosaic was showing best results in the first quarter. Changes made – larger offering of outerwear and improved collection were very well received by clients and brand achieved in the first quarter sales growth of 11%.

Baltman also showed sales growth, which mainly comes from Estonian market. Collection is also supported by offering of Baltman Unique special order, under which in January 500$^{th}$ man received personalised clothing.

### Wholesale and e-com

Sales results of wholesale and e-com were 874 thousand euros in 2013 first quarter, an increase of 3% compared to previous year.

## OPERATING EXPENSES AND NET PROFIT

Gross profit margin improved by 0.2 percentage points increasing to 51.3%. Gross profit of the quarter was 6,762 thousand euros, that is 5% and 307 thousand euros more than in the same period prior year.

The average sales area in the first quarter was without large changes. This is also reflected in the distribution expense that remains on the same level as prior year. Distribution expense in the first quarter was 6,568 thousand euros, that is 16 thousand euros more than in the same period in previous year. Rent and payroll expense increase was evened out with decrease in management and consultation cost.

General and administrative expense except rent expense remained on the same level as in prior year. Due to the sale of Baltika Quarter property general and administrative rental expense increased by 104 thousand euros. General and administrative expense increased in the first quarter by 58 thousand euros; therefore cost saving of 46 thousand euros was achieved when excluding rental expense.

Operating expense to revenue ratio was 55% in the first quarter. While there was general and administrative expense rental increase, with the increase in revenues on the same cost base the ratio has improved by 2 percentage points (2012 first quarter: 57%).

Frist quarter operating loss was 527 thousand euros. The result is 263 thousand euros better than that of previous year. First quarter EBITDA was -154 thousand euros, that is 61 thousand euros improvement compared to same period in prior year.

Net financial expense in the first quarter amounted to 76 thousand euros, that is a decrease of 159 thousand euros compared to the same period in prior year. The main reason was the fall in interest expense (interest expense was 217 thousand euros less than in prior year) due to large reduction in borrowings in prior year third quarter.

The net loss of the first quarter amounted to 603 thousand euros. Group activities are seasonal and first quarter is the weakest. Net loss decreased by 440 thousand euros compared to same period in prior year, i.e. 42%.

## FINANCIAL POSITION

Retail network investment program was carried on in the first quarter of 2013 and the investments into fixed assets have increased due to this. Property, plant and equipment at cost increased by 841 thousand euros. The depreciation in the quarter was 298 thousand euros and in total the fixed assets residual value increased by 554 thousand euros.

In accordance with investment program financial means were used for development and seasonally lower cash-flows from operating activities was financed through use of overdraft facilities. Borrowings increased compared to year end by 817 thousand euros and were 7,117 thousand euros as at 31 March 2013.

First quarter is the period where due to production cycle, working capital needs to be financed. Although operating loss excluding amortisation was only 154 thousand euros the net cash outflow from operating activities was 1,049 thousand euros due to working capital – payments to suppliers. Group has a stable financial position which has enabled to contribute resources to investment activities. 1,042 thousand euros was invested into fixed assets with retail network renovation. The last instalment of 1 000 thousand euros from the 3 000 thousand euros investment loan was received in April. This provides the means to continue with the investment plan.

As at 31 March Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 6,276 thousand euros, which has increased due to aforementioned activities by 2,083 thousand euros compared to year end. The net debt to equity ratio was 65% as at 31 March 2013, which signifies a large improvement compared to the figure at same point of seasonal cycle as at 31 March 2012 when it was 210%. Improved financial position is also shown by current ratio, that was a strong 1,8 (31 March 2012: 1,2) due to increase in current assets and decrease in liabilities.

## PEOPLE

As at 31 March 2013, Baltika Group employed a total of 1,299 people that is 11 people more than 31 December 2012 (1,288): 717 (31.12.2012: 709) in the retail system, 398 (394) in manufacturing and 184 (185) at the head office and logistics centre. The 2013 first quarter average number of staff was 1,297 (2012 first quarter: 1,327).

In the end of January Pille Põldsam joined Baltman OÜ Management Board. In Baltika Group, she will be responsible for the Estonian market, for setting and meeting the retail sales targets, organising the work of retail operations and managing the sales and service teams.

Baltika Group employees remuneration expense in first quarter of 2013 amounted to 2,726 thousand euros (2012: 2,472 thousand euros). The accrued remuneration with taxes, of the members of the Supervisory Council and Management Board totalled 93 thousand euros (2012: 66 thousand euros).

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

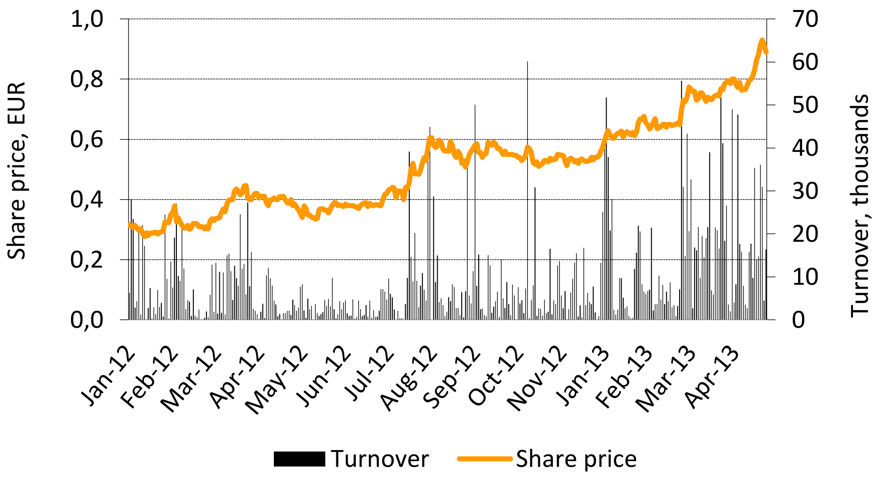
## KEY FIGURES OF THE GROUP (I QUARTER 2013)

| | 3M and 31 March 2013 | 3M and 31 March 2012 | 3M and 31 March 2011 | 3M and 31 March 2010 |
|---|---|---|---|---|
| Revenue (EUR thousand) | 13,186 | 12,643 | 11,771 | 11,047 |
| Retail sales (EUR thousand) | 12,289 | 11,531 | 10,755 | 9,927 |
| Share of retail sales in revenue | 93% | 91% | 91% | 90% |
| Number of stores | 112 | 108 | 116 | 131 |
| Sales area at the end of period (sqm) | 22,193 | 21,807 | 23,961 | 26,178 |
| Number of employees (end of period) | 1,299 | 1,316 | 1,418 | 1,647 |
| Gross margin | 51.3% | 51.1% | 50.0% | 46.4% |
| EBITDA (EUR thousand) | -154 | -215 | -1,431 | -1,234 |
| EBITDA margin | -1.2% | -1.7% | -12.2% | -11.2% |
| Operating margin | -4.0% | -6.2% | -17.8% | -18.1% |
| EBT margin | -4.6% | -8.1% | -20.1% | -18.3% |
| Net margin | -4.6% | -8.2% | -20.1% | -18.5% |
| Current ratio | 1.8 | 1.2 | 1.4 | 0.8 |
| Inventory turnover | 2.26 | 2.89 | 2.54 | 2.14 |
| Net gearing ratio | 65.1% | 209.8% | 190.3% | 223.2% |
| Return on equity | -6.5% | -57.2% | -51.4% | -67.8% |
| Return on assets | -2.3% | -15.4% | -15.4% | -17.7% |

### 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
15 May 2013

Maigi Pärnik-Pernik
Member of the Management Board
15 May 2013

Maire Milder
Member of the Management Board
15 May 2013

Andrew J. D. Paterson
Member of the Management Board
15 May 2013

Kati Kusmin
Member of the Management Board
15 May 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 first quarter of 2013 as presented on pages 10-28.

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
15 May 2013

Maigi Pärnik-Pernik
Member of the Management Board
15 May 2013

Maire Milder
Member of the Management Board
15 May 2013

Andrew J. D. Paterson
Member of the Management Board
15 May 2013

Kati Kusmin
Member of the Management Board
15 May 2013

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 31 March 2013 | 31 Dec 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 3 | 815 | 2,078 |
| Trade and other receivables | 4 | 2,125 | 1,836 |
| Inventories | 5 | 11,455 | 11,471 |
| **Total current assets** | | **14,395** | **15,385** |
| **Non-current assets** | | | |
| Deferred income tax asset | | 637 | 637 |
| Other non-current assets | 4 | 1,104 | 1,088 |
| Property, plant and equipment | 6 | 2,810 | 2,256 |
| Intangible assets | 7 | 4,090 | 4,150 |
| **Total non-current assets** | | **8,641** | **8,131** |
| **TOTAL ASSETS** | | **23,036** | **23,516** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Current liabilities** | | | |
| Borrowings | 8 | 1,649 | 1,598 |
| Trade and other payables | 9 | 6,264 | 7,005 |
| **Total current liabilities** | | **7,913** | **8,603** |
| **Non-current liabilities** | | | |
| Borrowings | 8 | 5,468 | 4,702 |
| Other liabilities | 9 | 21 | 25 |
| **Total non-current liabilities** | | **5,489** | **4,727** |
| **TOTAL LIABILITIES** | | **13,402** | **13,330** |
| | | | |
| **EQUITY** | | | |
| Share capital at par value | 10 | 7,159 | 7,159 |
| Share premium | | 94 | 63 |
| Reserves | 10 | 1,182 | 1,182 |
| Retained earnings | | 2,471 | 1,667 |
| Net profit (loss) for the period | | -603 | 804 |
| Currency translation differences | | -669 | -689 |
| **TOTAL EQUITY** | | **9,634** | **10,186** |
| **TOTAL LIABILITIES AND EQUITY** | | **23,036** | **23,516** |

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Q1 2013 | Q1 2012 |
|---|---|---|---|
| Revenue | 11,12 | 13,186 | 12,643 |
| Cost of goods sold | 13 | -6,424 | -6,188 |
| **Gross profit** | | **6,762** | **6,455** |
| Distribution costs | 14 | -6,575 | -6,584 |
| Administrative and general expenses | 15 | -735 | -684 |
| Other operating income | 16 | 28 | 33 |
| Other operating expenses | 16 | -7 | -10 |
| **Operating loss** | | **-527** | **-790** |
| Finance income | 17 | 17 | 107 |
| Finance costs | 17 | -93 | -342 |
| **Loss before income tax** | | **-603** | **-1,025** |
| Income tax expense | | 0 | -18 |
| **Net loss** | | **-603** | **-1,043** |
| Loss attributable to: | | | |
| Equity holders of the parent company | | -603 | -1,044 |
| Non-controlling interest | | 0 | 1 |
| **Other comprehensive income** | | | |
| Currency translation differences | | 20 | 78 |
| **Total comprehensive loss** | | **-583** | **-965** |
| Comprehensive loss attributable to: | | | |
| Equity holders of the parent company | | -583 | -966 |
| Non-controlling interest | | 0 | 1 |
| Basic earnings per share, EUR | 18 | -0,02 | -0,03 |
| Diluted earnings per share, EUR | 18 | -0,02 | -0,03 |

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | Q1 2013 | Q1 2012 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating loss | | -527 | -790 |
| Adjustments: | | | |
| Depreciation, amortisation and impairment of PPE and intangibles | 13-15 | 374 | 505 |
| Loss from disposal of PPE | | 1 | -4 |
| Other non-monetary expenses | | 19 | 46 |
| Changes in working capital: | | | |
| Change in trade and other receivables | 4 | -96 | 256 |
| Change in inventories | 5 | 17 | 897 |
| Change in trade and other payables | 9 | -771 | -1,236 |
| Interest paid | | -66 | -284 |
| Income tax paid | | 0 | -46 |
| **Net cash used in operating activities** | | **-1,049** | **-656** |
| | | | |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment, intangibles | 6, 7 | -1,042 | -56 |
| Proceeds from disposal of property, plant and equipment, investment property | | 0 | 6 |
| **Net cash used in investing activities** | | **-1,042** | **-50** |
| | | | |
| **Financing activities** | | | |
| Repayments of borrowings | 8 | -360 | -157 |
| Change in bank overdraft | 8 | 1,185 | 524 |
| Repayments of finance lease and other liabilities | | -5 | -42 |
| Redemption of share options | 8 | -3 | 0 |
| **Net cash generated from financing activities** | | **817** | **325** |
| **Total cash flows** | | **-1,274** | **-381** |
| | | | |
| **Cash and cash equivalents at the beginning of the period** | 3 | **2,078** | **863** |
| Effect of exchange gains on cash and cash equivalents | | 11 | 0 |
| **Cash and cash equivalents at the end of the period** | 3 | **815** | **482** |
| **Change in cash and cash equivalents** | | **-1,263** | **-381** |

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to the equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Reserves** | **Retained earnings** | **Currency translation reserve** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance as at 31 Dec 2011** | **25,056** | **89** | **2,494** | **-17,455** | **-727** | **9,457** | **165** | **9,622** |
| Loss for the period | 0 | 0 | 0 | -1,044 | 0 | -1,044 | 1 | -1,043 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 78 | 78 | 0 | 78 |
| Total comprehensive income (loss) | 0 | 0 | 0 | -1,044 | 78 | -966 | 1 | -965 |
| **Balance as at 31 March 2012** | **25,056** | **89** | **2,494** | **-18,499** | **-649** | **8,491** | **166** | **8,657** |
| **Balance as at 31 Dec 2012** | **7,159** | **63** | **1,182** | **2,471** | **-689** | **10,186** | **0** | **10,186** |
| Loss for the period | 0 | 0 | 0 | -603 | 0 | -603 | 0 | -603 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 20 | 20 | 0 | 20 |
| Total comprehensive income (loss) | 0 | 0 | 0 | -603 | 20 | -583 | 0 | -583 |
| Equity-settled share-based transactions (Note 15) | 0 | 31 | 0 | 0 | 0 | 31 | 0 | 31 |
| **Balance as at 31 March 2013** | **7,159** | **94** | **1,182** | **1,868** | **-669** | **9,634** | **0** | **9,634** |

# 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 three months ended 31 March 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 management, which is an important and integral part of the business activities of the Group. The Group's ability to identify, measure and control different risks is a key input for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks. Group's Parent company considers all the risks as significant risks for the Group.

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

### Market risk

*Foreign exchange risk*

Sales in foreign currencies constitute 64% (2012 three months: 65%). 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 -1.52% (2012: +1,12%), Ukrainian hryvnia -0.90%

(2012: +3.56%) and Latvian lat -0.16% (2012: +0.91%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was -0.75% (2012: +4.18%).

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 31 March 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.

At 31 March 2013 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted 1,391 thousand euros (31 December 2012: 1,307 thousand euros) on a net basis after the allowances.

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

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 31 March 2013 was 382 thousand euros (31 December 2012: 1,567 thousand euros).

**Financial liabilities by maturity at 31 March 2013**

| | | Undiscounted cash flows[1] | | |
|---|---|---|---|---|
| | Carrying amount | 1-12 months | 1-5 years | Total |
| Loans (Note 8)[2] | 5,561 | 1,866 | 4,097 | 5,963 |
| Finance lease liabilities (Note 8) | 30 | 23 | 9 | 32 |
| Convertible bonds, share options (Note 8) | 1,526 | 114 | 1,636 | 1,750 |
| Trade payables (Note 9) | 3,598 | 3,598 | 0 | 3,598 |
| Other financial liabilities | 47 | 47 | 0 | 47 |
| **Total** | **10,762** | **5,648** | **5,742** | **11,390** |

**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, share options (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.

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.

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

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 this goal was achieved. In the end of the first quarter of 2013 the goal was not achieved mainly because the business´s seasonality. In the first quarter the Group earned loss and also borrowings increased due to investing activities (usage of bank´s overdraft).

**Net gearing ratio**

| | **31 March 2013** | **31 Dec 2012** |
|---|---|---|
| Interest carrying borrowings (Note 8) | 7,091 | 6,271 |
| Cash and cash equivalents (Note 3) | -815 | -2,078 |
| Net debt | 6,276 | 4,193 |
| Total equity | 9,634 | 10,186 |
| **Net gearing ratio** | **65%** | **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 31 March 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 First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## NOTE 3 Cash and cash equivalents

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| Cash on hand | 175 | 415 |
| Cash at bank and overnight deposits | 640 | 1,663 |
| **Total** | **815** | **2,078** |

### Cash and cash equivalents by currency

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| RUB (Russian rouble) | 314 | 510 |
| EUR (euro) | 220 | 1,198 |
| LTL (Lithuanian lit) | 167 | 103 |
| UAH (Ukrainian hryvnia) | 58 | 144 |
| LVL (Latvian lat) | 56 | 123 |
| **Total** | **815** | **2,078** |

## NOTE 4 Trade and other receivables

| **Short-term** | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| Trade receivables, net | 764 | 680 |
| Other prepaid expenses | 791 | 763 |
| Tax prepayments and tax reclaims, thereof | 517 | 344 |
| Value added tax | 464 | 233 |
| Prepaid income tax | 17 | 15 |
| Other taxes | 36 | 96 |
| Other current receivables | 53 | 49 |
| **Total** | **2,125** | **1,836** |

| **Long-term** | | |
|---|---|---|
| Non-current lease prepayments | 477 | 461 |
| Other long-term receivables | 627 | 627 |
| **Total** | **1,104** | **1,088** |

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

### Trade receivables

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| Trade receivables, gross | 765 | 681 |
| Allowance for impairment of trade receivables | -1 | -1 |
| **Trade receivables, net** | **764** | **680** |

### Trade receivables (net) by due date

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| Not due | 646 | 608 |
| Up to 1 month past due | 108 | 36 |
| 1-3 months past due | 2 | 19 |
| 3-6 months past due | 8 | 17 |
| **Total** | **764** | **680** |

### Trade receivables (net) in denominated currency

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| EUR (euro) | 584 | 425 |
| LVL (Latvian lat) | 82 | 140 |
| RUB (Russian rouble) | 71 | 65 |
| UAH (Ukrainian hryvnia) | 24 | 30 |
| LTL (Lithuanian lit) | 3 | 20 |
| **Total** | **764** | **680** |

Baltika Group First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## NOTE 5 Inventories

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| Fabrics and accessories | 1,989 | 2,281 |
| Work-in-progress | 69 | 69 |
| Finished goods and goods purchased for resale | 9,082 | 9,330 |
| Allowance for impairment of finished goods and goods purchased for resale | 0 | -460 |
| Prepayments to suppliers | 315 | 251 |
| **Total** | **11,455** | **11,471** |

## NOTE 6 Property, plant and equipment

| | Buildings and structures | Machinery and equipment | Other fixtures | Construction in progress | Total |
|---|---|---|---|---|---|
| **31 December 2011** | | | | | |
| **Acquisition cost** | **9,231** | **5,633** | **6,691** | **0** | **21,554** |
| Accumulated depreciation | -3,360 | -4,655 | -5,509 | 0 | -13,523 |
| **Net book amount** | **5,871** | **978** | **1,182** | **0** | **8,031** |
| | | | | | |
| Additions | 7 | 9 | 26 | 14 | 56 |
| Reclassifications from inventories | 0 | 0 | 6 | 0 | 6 |
| Disposals | 0 | 0 | -2 | 0 | -2 |
| Reclassification | -21 | 4 | 17 | 0 | 0 |
| Depreciation | -163 | -88 | -179 | 0 | -430 |
| Currency translation differences | -5 | 13 | 9 | 0 | 17 |
| | | | | | |
| **31 March 2012** | | | | | |
| Acquisition cost | **9,124** | **5,675** | **6,777** | **14** | **21,590** |
| Accumulated depreciation | -3,435 | -4,759 | -5,718 | 0 | -13,912 |
| Net book amount | **5,689** | **916** | **1,059** | **14** | **7,678** |
| | | | | | |
| **31 December 2012** | | | | | |
| **Acquisition cost** | **3,975** | **5,480** | **6,645** | **3** | **16,103** |
| Accumulated depreciation | -3,303 | -4,786 | -5,758 | 0 | -13,847 |
| **Net book amount** | **672** | **694** | **887** | **3** | **2,256** |
| | | | | | |
| Additions | 266 | 90 | 417 | 68 | 841 |
| Reclassifications from inventories | 0 | 0 | 0 | 1 | 1 |
| Disposals | 0 | 0 | -1 | 0 | -1 |
| Reclassifications to inventories | 0 | 0 | -2 | 0 | -2 |
| Reclassification | 0 | -34 | 38 | -4 | 0 |
| Depreciation | -88 | -92 | -118 | 0 | -298 |
| Currency translation differences | 6 | 1 | 3 | 3 | 13 |
| | | | | | |
| **31 March 2013** | | | | | |
| **Acquisition cost** | **4,167** | **5,547** | **6,975** | **71** | **16,760** |
| Accumulated depreciation | -3,311 | -4,888 | -5,751 | 0 | -13,950 |
| **Net book amount** | **856** | **659** | **1,224** | **71** | **2,810** |

First quarter of 2013 consolidated interim report (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 | -71 | -8 | 0 | 0 | -79 |
| Currency translation differences | 5 | 0 | 0 | 107 | 112 |
| | | | | | |
| **31 March 2012** | | | | | |
| **Acquisition cost** | **2,185** | **643** | **10** | **2,325** | **5,163** |
| Accumulated depreciation | -1,286 | -179 | 0 | 0 | -1,465 |
| **Net book amount** | **899** | **464** | **10** | **2,325** | **3,698** |
| | | | | | |
| **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 | 2 | 0 | 0 | 0 | 2 |
| Amortisation | -68 | -11 | 0 | 0 | -79 |
| Currency translation differences | 0 | 0 | 0 | 17 | 17 |
| | | | | | |
| **31 March 2013** | | | | | |
| **Acquisition cost** | **2,302** | **1,243** | **0** | **2,296** | **5,841** |
| Accumulated depreciation | -1,536 | -215 | 0 | 0 | -1,751 |
| **Net book amount** | **766** | **1,028** | **0** | **2,296** | **4,090** |

## NOTE 8 Borrowings

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| **Current borrowings** | | |
| Current portion of non-current bank loans | 1,626 | 1,570 |
| Current portion of finance lease liabilities | 21 | 23 |
| Share options (Note 19) | 2 | 5 |
| **Total** | **1,649** | **1,598** |
| | | |
| **Non-current borrowings** | | |
| Non-current bank loans | 3,935 | 3,165 |
| Non-current finance lease liabilities | 9 | 13 |
| Convertible bonds, share options (Note 19) | 1,524 | 1,524 |
| **Total** | **5,468** | **4,702** |
| | | |
| **Total borrowings** | **7,117** | **6,300** |

During the reporting period, the Group made loan repayments in the amount of 360 thousand euros (2012: 157 thousand euros). Interest expense of all interest carrying borrowings of the reporting period amounted to 88 thousand euros (2012: 305 thousand euros), including 28 thousand euros interest expense from convertible bonds. Group´s overdraft facilities with the banks were used in the amount of 1,185 thousand euros as at 31 March 2013 (31 December 2012: 0 thousand euros).

Baltika Group First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

### Interest carrying loans and bonds of the Group as at 31 March 2013

| | Carrying amount | Average risk premium |
|---|---|---|
| Borrowings at floating interest rate (based on 1-month and 6-month Euribor) | 5,561 | EURIBOR+4,40% |
| H-bonds (Note 19) | 1,500 | 7.50% |
| **Total** | **7,061** | |

### 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

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | 3,598 | 4,162 |
| Tax liabilities, thereof | 1,049 | 1,218 |
| Personal income tax | 238 | 171 |
| Social security taxes and unemployment insurance premium | 524 | 454 |
| Value added tax | 256 | 565 |
| Corporate income tax liability | 10 | 11 |
| Other taxes | 21 | 17 |
| Payables to employees[1] | 1,177 | 1,234 |
| Other accrued expenses[2] | 153 | 91 |
| Customer prepayments | 17 | 24 |
| Other current payables | 270 | 276 |
| **Total** | **6,264** | **7,005** |
| | | |
| **Non-current liabilities** | | |
| Other liabilities[3] | 21 | 25 |

[1]Payables to employees consist of accrued wages, salaries and vacation reserve.
[2]Accrued expenses include interest payable in the amount of 106 thousand euros (31 December 2012: 79 thousand euros).
[3]Other non-current liabilities consist mostly of deferred income.

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

### Trade payables and other accrues expenses in denominated currency

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| EUR (euro) | 2,621 | 2,822 |
| USD (US dollar) | 871 | 1,121 |
| RUB (Russian rouble) | 102 | 80 |
| LVL (Latvian lat) | 54 | 98 |
| UAH (Ukrainian hryvnia) | 46 | 45 |
| LTL (Lithuanian lit) | 42 | 72 |
| Other currencies | 15 | 15 |
| **Total** | **3,751** | **4,253** |

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## NOTE 10 Equity

### Share capital and reserves

| | 31 March 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 31 March 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 31 March 2013 and 31 December 2012 share capital consists of ordinary shares, that are listed on the Tallinn Stock Exchange.

### Convertible bonds and share options

| | Issue date | Bond conversion period | Number of convertible bonds 31 March 2013 | Number of convertible bonds 31 Dec 2012 |
|---|---|---|---|---|
| H-Bond | 11 May 2012 | 11 May 2013 - 10 May 2014 | 5,000,000 | 5,000,000 |
| 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.

#### H-bonds

The annual general meeting of shareholders held on 20 April 2012 decided to issue 5,000,000 convertible bonds (H-bond) with the nominal value 0.30 euros. Each bond gives its owner the right to subscribe one share with a nominal value of 0.20 euros. The share subscription price is 0.30 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 11 May 2013 until 10 May 2014. The annual interest of bonds is 7,5%. The mentioned convertible bonds were issued to a related party with significant influence KJK Fund, Sicav-SIF.

### Shareholders as at 31 March 2013

| | Number of shares | Holding |
|---|---|---|
| 1. ING Luxembourg S.A. | 7,590,914 | 21.21% |
| 2. Clearstream Banking Luxembourg S.A. clients | 6,570,446 | 18.36% |
| 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 | 9,724,784 | 27.16% |
| **Total** | **35,794,850** | **100.00%** |

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

**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.

**The segment information provided to the Management Board for the reportable segments for the period ended on 31 March 2013 and on 31 December 2012 is as follows**

| | Retail Baltic region | Retail Eastern Europe | Whole-sale[1] | Real estate manage-ment[3] | Total |
|---|---|---|---|---|---|
| **Q1 2013 and as at 31 March 2013** | | | | | |
| Revenue (from external customers) | 8,399 | 3,890 | 897 | 0 | 13,186 |
| Segment profit (loss)[2] | 998 | -356 | 244 | 0 | 886 |
| Incl. depreciation and amortisation | -152 | -100 | 0 | 0 | -252 |
| Inventories of segments | 3,794 | 1,873 | 0 | 0 | 5,667 |

Baltika Group First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

| Q1 2012 and as at 31 March 2012 | | | | | |
|---|---|---|---|---|---|
| Revenue (from external customers) | 7,516 | 4,015 | 944 | 168 | 12,643 |
| Segment profit (loss)[2] | 787 | -536 | 266 | 155 | 672 |
| Incl. depreciation and amortisation | -223 | -117 | 0 | 0 | -340 |
| Inventories of segments | 3,212 | 1,791 | 0 | 0 | 5,003 |

[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**

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Total segment profit | 886 | 672 |
| Unallocated expenses[1]: | | |
| Costs of goods sold and distribution costs | -699 | -801 |
| Administrative and general expenses | -735 | -684 |
| Other operating income (expenses), net | 21 | 23 |
| **Operating profit (loss)** | **-527** | **-790** |

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

**Reconciliation of segment inventories to consolidated inventories**

| | 31 March 2013 | 31 Dec 2012 | 31 March 2012 |
|---|---|---|---|
| Total inventories of segments | 5,667 | 5,980 | 5,003 |
| Inventories in Parent company and production company | 5,788 | 5,491 | 4,143 |
| **Inventories in the statement of financial position** | **11,455** | **11,471** | **9,146** |

## NOTE 12 Revenue

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Sale of goods | 13,163 | 12,377 |
| Lease revenue | 0 | 168 |
| Other | 23 | 98 |
| **Total** | **13,186** | **12,643** |

**Sales by geographical (client location) areas**

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Estonia | 4,148 | 3,817 |
| Russia | 2,492 | 2,533 |
| Lithuania | 2,481 | 2,324 |
| Latvia | 2,196 | 1,969 |
| Ukraine | 1,513 | 1,601 |
| Finland | 257 | 227 |
| Germany | 94 | 165 |
| Other countries | 5 | 7 |
| **Total** | **13,186** | **12,643** |

Baltika Group First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## NOTE 13 Cost of goods sold

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Materials and supplies | 5,809 | 5,603 |
| Payroll costs in production | 748 | 707 |
| Operating lease expenses | 167 | 158 |
| Other production costs | 115 | 116 |
| Depreciation of assets used in production (Note 6,7) | 45 | 54 |
| Change in allowance for inventories | -460 | -450 |
| **Total** | **6,424** | **6,188** |

## NOTE 14 Distribution costs

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Operating lease expenses | 2,592 | 2,497 |
| Payroll costs | 2,562 | 2,396 |
| Depreciation and amortisation (Note 6,7) | 286 | 373 |
| Advertising expenses | 282 | 271 |
| Fuel, heating and electricity costs | 192 | 196 |
| Fees for card payments | 100 | 91 |
| Municipal services and security expenses | 85 | 74 |
| Travel expenses | 77 | 68 |
| Consultation and management fees | 49 | 107 |
| Information technology expenses | 49 | 57 |
| Communication expenses | 39 | 33 |
| Other sales expenses[1] | 262 | 421 |
| **Total** | **6,575** | **6,584** |

[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.

## NOTE 15 Administrative and general expenses

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Payroll costs[1] | 323 | 303 |
| Operating lease expenses | 111 | 7 |
| Information technology expenses | 58 | 66 |
| Bank fees | 52 | 72 |
| Depreciation and amortisation (Note 6,7) | 41 | 78 |
| Fuel, heating and electricity expenses | 34 | 26 |
| Management, juridical-, auditor´s and other consulting fees | 32 | 57 |
| Sponsorship, gifts, donations | 14 | 7 |
| Other administrative expenses[2] | 70 | 68 |
| **Total** | **735** | **684** |

[1] Payroll costs include payroll expenses for employee services received under the share options programme in the amount of 31 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.

First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

## NOTE 16 Other operating income and expenses

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Gain from sale of PPE | 0 | 4 |
| Other operating income | 1 | 4 |
| Foreign exchange gain | 26 | 25 |
| Fines, penalties and tax interest | -3 | -5 |
| Other operating expenses | -3 | -5 |
| **Total** | **21** | **23** |

## NOTE 17 Finance income and costs

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Interest costs | -88 | -305 |
| Foreign exchange income (losses) | 17 | 107 |
| Other finance costs | -5 | -37 |
| **Total** | **-76** | **-235** |

## NOTE 18 Earnings per share

| | | Q1 2013 | Q1 2012 |
|---|---|---|---|
| Weighted average number of shares (thousand) | pcs | 35,795 | 35,795 |
| Net loss attributable to equity holders of the parent | | -603 | -1,044 |
| **Basic loss per share** | EUR | **-0.02** | **-0.03** |
| | | | |
| **Diluted loss per share** | EUR | **-0.02** | **-0.03** |

In the first quarter of 2013 as well as 2012 basic loss per share equalled diluted loss per share as the Group earned loss in both quarters.

If the Group would have earned profit, the diluted earnings per share would have adjusted by adjusting the outstanding ordinary shares with two types of potentially convertible instruments:

- H-bonds;
- I-bonds in the first quarter of 2013 and G-bonds in the first quarter of 2012.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in the three months of 2013 was 0.67 euros (2012: 0.34 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.

Baltika Group First quarter of 2013 consolidated interim report (in thousands euros, unaudited)

### Transactions with related parties

| | Q1 2013 Purchases | Q1 2012 Purchases |
|---|---|---|
| Services | 57 | 50 |
| **Total** | **57** | **50** |

In the first quarter of 2013 AS Baltika bought mostly management, communication and other services from related parties. In the first quarter of 2012 AS Baltika bought mostly management and other services from related parties.

### Balances with related parties

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| Other current receivables (Note 4) | 1 | 1 |
| **Receivables from related parties total** | **1** | **1** |

| | 31 March 2013 | 31 Dec 2012 |
|---|---|---|
| Other current loans and interests (Note 8, 9) | 1,620 | 1,592 |
| Trade payables (Note 9) | 17 | 18 |
| **Payables to related parties total** | **1,637** | **1,610** |

All transactions in 2013 as well as in 2012 reporting periods and balances with related parties as at 31 March 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 31 March 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

| | Q1 2013 | Q1 2012 |
|---|---|---|
| Salaries of the members of the Management Board [1] | 88 | 59 |
| Remuneration of the members of the Supervisory Council | 5 | 7 |
| **Total** | **93** | **66** |

[1]In the first quarter of 2013 there were five members of Management Board (in the first quarter of 2012: four members).

Convertible bonds (H-bonds) are issued to related party. Share options (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 31 March 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 31 March 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 31 March 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 31 March 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 31 March 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 31 March 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's shares 31 March 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 31 March 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 31 March 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 31 March 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").