Baltika Group

AS BALTIKA

Consolidated interim report for the second quarter and 6 months of 2011

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 2011 – 31 December 2011
Reporting period	1 January 2011 – 30 June 2011

CONTENTS

Brief description of Baltika Group 3
Management report 4
Interim financial statements 12
Consolidated statement of financial position 13
Consolidated statement of comprehensive income 14
Consolidated cash flow statement 15
Consolidated statement of changes in equity 16
Notes to consolidated interim report 17
NOTE 1 Accounting policies and accounting methods used in the preparation of the interim report 17
NOTE 2 Financial risks 17
NOTE 3 Cash and bank 20
NOTE 4 Trade and other receivables 21
NOTE 5 Inventories 22
NOTE 6 Other non-current assets 22
NOTE 7 Investment property 22
NOTE 8 Property, plant and equipment 22
NOTE 9 Intangible assets 23
NOTE 10 Borrowings 24
NOTE 11 Trade and other payables 25
NOTE 12 Equity 25
NOTE 13 Segments 27
NOTE 14 Revenue 28
NOTE 15 Cost of goods sold 28
NOTE 16 Distribution costs 28
NOTE 17 Administrative and general expenses 29
NOTE 18 Other operating income 29
NOTE 19 Other operating expenses 29
NOTE 20 Finance income and costs 29
NOTE 21 Earnings per share 30
NOTE 22 Related parties 30

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 30 June 2011, the Group employed 1,420 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 30 June 2011	Holding at 31 December 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 UNAUDITED FINANCIAL RESULTS, 2 QUARTER 2011

On the whole, Baltika Group's performance in the second quarter of 2011 corresponded to the company's expectations. The focus of the period was on improving efficiency by restructuring the Group's retail network and streamlining the internal processes. Throughout the first half-year, the company continued to enhance its collections creation process, upgrade inventory and discount management, aim its marketing efforts more directly at the brands' target customers and improve customer service at the stores. Thanks to determined streamlining, in the second quarter sales per square metre grew by 10%, and even more in local currencies. At the same time, store operating expenses were almost 10% smaller and costs per square metre dropped by 1.4%.

Second quarter gross margin rose to 58% (Q2 2010: 56%) and discount rates improved significantly; the average discount rate for the second quarter was 5 percentage points smaller than a year ago. Inventory turnover increased and although the world market saw an upsurge in raw materials prices (particularly cotton) and cost inflation in China was substantial, the Group succeeded in maintaining its cost to sales price ratio stable.

Sales level with the second quarter of 2010 were achieved on an 9% smaller sales area while gross profit grew by 4% and operating expenses (distribution and administrative expenses) declined by 6%. In the second quarter, the Group's profit centres considerably improved their performance, all brands and continuing retail markets generated a profit and total profit of the retail system grew by 57% year-over-year.

Operating loss for the second quarter of 2011 was 99 thousand euros compared with an operating loss of 511 thousand euros for the second quarter of 2010. The current year second quarter figure includes a foreign exchange loss of 94 thousand euros while in the comparative period the Group earned foreign exchange gain of 304 thousand euros. The second quarter of 2011 ended in a net loss of 444 thousand euros against a net loss of 886 thousand euros for the second quarter of 2010.

Second quarter highlights:

- The Group continued to monitor all underperforming stores and closed its Evropeysky store in Moscow. This will lower operating expenses in Russia and will increase the profitability of the retail system. At the same time, the Group opened a store in a shopping centre in Odessa, Ukraine.
- The Group reinforced management of the Russian market by hiring a professional with over 15 years of retailing experience.
- The sannual general meeting that convened on 11 May 2011 decided to increase the share capital of AS Baltika by issuing 3,150,000 additional shares with an issue price of 1 euro each. As a sufficient quantity of shares was not subscribed for, the company cancelled the issue. On 27 June 2011 the supervisory council resolved to increase the share capital of AS Baltika by the issue of 4,300,000 additional registered shares with an issue price of 0.70 euros each. The new shares are being offered to existing and new shareholders through a public offering and can be subscribed for from 19 July to 2 August. The shareholder KJK Fund Sicav-SIF has signed the obligation to subscribe for 2,142,857 shares, the shareholder E.Miroglio S.A. for 2,157,142 shares and the shareholder East Capital Baltic Fund for 333,000 shares.

The ongoing share issue is designed to support implementation of Baltika's adopted strategy:

- Sales will be increased, mainly by improving the efficiency of existing stores, opening new stores and making more active use of additional sales channels. For this, the company will complete a refresh of the visual identities and retail concepts of the Monton and Mosaic brands, a project undertaken in partnership with the creative agency Dan Pearlman, and will begin gradual refurbishment of the stores. The new retail concepts will be applied in at least one new store in Ukraine and one in Latvia and three stores that will be taken over from a Russian wholesale partner in the Siberia region in Russia. In addition, the company will continue preparations for launching the Monton e-shop (testing has been scheduled for the fourth quarter of this year) and making new wholesale and franchise offers (the first contracts should be signed in the first half of 2012). Baltika will exit the Polish market in the third quarter of 2011 and associated sales will be discontinued in august.
- To improve management efficiency and product development and better utilise the sales resources, a new and more effective brand and sales management structure will be implemented in the third quarter

of 2011. Baltika will continue to operate with four brands but will centralise a number of activities that used to be brand-based and will streamline its matrix management structure by reducing management levels and specifying responsibilities.

- To raise the efficiency of its manufacturing operations, the Group will develop a strategic development plan for its factories. This will be done in the third quarter. Options include complete integration of the product development and manufacturing operations and transformation of the factories into an independent profit centre freely competing in the market. The purpose of both options is to continue lowering the cost of conversion.

The Group anticipates current growth to continue in the following quarters and management's target is to achieve a positive net result for the second half-year.

REVENUE

Baltika Group ended the first half of 2011 with revenue of 24,413 thousand euros, a 3% improvement year-over-year. Second quarter revenue was 12,642 thousand euros, a figure similar to the one achieved a year ago.

Revenue by activity

	Q2 2011	Q2 2010	+/-	6M 2011	6M 2010	+/-
Retail	12,092	11,986	1%	22,847	21,913	4%
Wholesale	421	462	-9%	1,266	1,490	-15%
Real estate management	115	87	32%	225	172	31%
Subcontracting	6	35	-83%	60	35	71%
Other	8	21	-62%	15	28	-46%
Total	**12,642**	**12,591**	0%	**24,413**	**23,638**	3%

Retail

Retail revenue for the first half-year was 22,847 thousand euros, a 4% increase year-over-year. In the first half of 2011, sales grew in Latvia (17%), Estonia (13%) and Russia (5%).

Second quarter retail revenue amounted to 12,092 thousand euros, 1% up on the second quarter of 2010. In the second quarter of 2011, sales grew in Estonia and Latvia. Sales contraction in Lithuania, Ukraine, Russia and Poland is attributable to a substantial decrease in sales area and in Ukraine also the impact of movements in foreign exchange rates. In local currency, second quarter Ukrainian revenues dropped by 5% while in euros the contraction was 17% on a year-over-year basis.

Retail sales by market

	Q2 2011	Q2 2010	+/-	Share	6M 2011	6M 2010	+/-	Share
Estonia	3,648	3,226	13%	30%	6,456	5,689	13%	26%
Russia	2,538	2,596	-2%	21%	5,081	4,822	5%	24%
Lithuania	2,334	2,411	-3%	19%	4,452	4,532	-2%	19%
Ukraine	1,480	1,774	-17%	12%	2,974	3,357	-11%	14%
Latvia	1,789	1,616	11%	15%	3,279	2,808	17%	14%
Poland	303	363	-17%	3%	605	705	-14%	3%
Total	**12,092**	**11,986**	**1%**	**100%**	**22,847**	**21,913**	**4%**	**100%**

Stores and sales area

As at the end of the first half of 2011, Baltika had 116 stores in six countries with a total sales area of 23,582 square metres, which is 12 stores and 2,148 square metres less than at the end of the first half of 2010. In the first half of 2011 one new store was opened in Ukraine and five stores were closed: two in Lithuania and Russia and one in Ukraine.

Stores by market

	30 June 2011	30 June 2010	Change in period-end sales area
Estonia	30	31	1%
Lithuania	29	35	-16%
Russia	21	22	-6%
Ukraine	17	20	-16%
Latvia	15	15	1%
Poland	4	5	-16%
Total number of stores	**116**	**128**	
Total sales area, sqm	**23,582**	**25,730**	**-8%**

The number of stores and the sales area have decreased on account of restructuring undertaken in the retail system with a view to improving operating efficiency. The Group continues to monitor underperforming stores and will improve their results by various activities. However, to date the store network has in all material respects been streamlined and no major closures are planned (except for the closure of four stores in Poland).

The efficiency of the retail system is reflected by sales per square metre. The indicator has improved notably across all markets except Poland where the closure of four stores is coming to an end. The strongest growth was achieved in the Lithuanian market that was hit by the downturn after the other Baltic markets and also regained growth later than the others. Estonia and Latvia are posting stable growth figures and second quarter growth in Ukraine and Russia (15% and 8% in local currency respectively) may also be considered satisfactory. However, due to unfavourable fluctuations in foreign exchange rates, euro-based growth rates are considerably smaller.

Sales efficiency by market

	Q2 2011	Q2 2010	+/-	6M 2011	6M 2010	+/-
Estonia	206	184	12%	183	162	13%
Russia*	181	176	3%	173	161	7%
Lithuania	140	119	18%	133	111	20%
Ukraine*	150	149	1%	151	138	9%
Latvia	182	166	10%	167	146	14%
Poland	100	100	0%	100	97	3%
Total	**170**	**154**	**10%**	**159**	**140**	**14%**

*In local currency, second quarter sales efficiency grew by 8% in Russia and 15% in Ukraine while the respective figures for the first half-year were 8% and 16%.

Brands

In terms of brands, the largest share of Baltika's retail revenue is generated by Monton whose retail sales for the first half-year accounted for 53% of the Group's retail revenue for the first half-year. Mosaic contributed 32% , Baltman 8% and Ivo Nikkolo 7%.

Retail revenue by brand

In thousands of euros	Q2 2011	Q2 2010	+/-	Share	6M 2011	6M 2010	+/-	Share
Monton	6,531	6,222	5%	54%	12,171	11,447	6%	53%
Mosaic	3,823	4,076	-6%	32%	7,240	7,436	-3%	32%
Baltman	996	908	10%	8%	1,806	1,597	13%	8%
Ivo Nikkolo	732	768	-5%	6%	1,614	1,386	16%	7%
Others	10	12	-17%	0%	16	47	-66%	0%
Total	**12,092**	**11,986**	**1%**	**100%**	**22,847**	**21,913**	**4%**	**100%**

Monton and Batman continued to post strong growth figures: their second quarter growth rates were 5% and 10% respectively. Second quarter sales of Ivo Nikkolo and Mosaic decreased year-over-year but mainly because of the closure of stores, i.e. shrinkage in sales area. All brands improved their efficiency indicators compared with the previous year, which may be attributed to stabilisation in the economic environment and consumer demand as well as effective streamlining of the retail system.

Sales efficiency and change in average sales area by brand

	Q2 2011	Q2 2010	+/-	Change in average area	6M 2011	6M2010	+/-	Change in average area
Monton	161	141	14%	-8%	148	128	16%	-8%
Mosaic	163	161	1%	-8%	153	145	6%	-8%
Baltman	288	224	28%	-15%	262	197	33%	-15%
Ivo Nikkolo	226	203	11%	-14%	243	191	27%	-8%
Total	**171**	**155**	**10%**	**-9%**	**160**	**141**	**14%**	**-8%**

Thanks to a successful spring-summer collection, active marketing and improved visual communication, Monton, which is the largest brand in terms of revenue, was able to improve its second quarter sales efficiency by a strong 14% (on a year-over-year basis).

The second-largest brand, Mosaic, posted a 1% improvement in sales efficiency. The figure is smaller because target customer spending in Ukraine and Russia recovered more slowly than expected and movements in foreign exchange rates were unfavourable. The purchasing behaviour of Mosaic's target customers becomes more active during periods of special offers and discounts. This is particularly true about Ukraine but also Russia. In the Baltic countries, the impact of discounts is the strongest in Lithuania. Nevertheless, the discount rates of the second quarter and consequently the first half-year improved considerably.

In the second quarter, Mosaic's menswear collection posted excellent sales figures. This as well as Baltman's strong performance was achieved thanks to improvement of the collection creation process and affirms men's return to the stores and a rise in their purchasing activity.

Baltman's second quarter sales per square metre grew by 28% year-over-year, reflecting the success of the collection, better planning and the economic recovery of the markets (particularly in Estonia and Latvia). The spring and summer of 2011 have been a tough time for selling men's outerwear because spring was very short. However, this was counterbalanced by outstanding results in Baltman's primary clothing categories - suits, jackets and shirts.

Strong results were also achieved in the sale of Baltman's special-order suits that generated revenue of 28 thousand euros, a roughly three-fold improvement on the previous year. Thus, special-order sales accounted for 3% of the brand's total retail revenue, which corresponds to the brand's long-term strategic objectives.

Ivo Nikkolo performed well in the first half-year. In the second quarter, sales per square metre grew by 11%. Due to the main focus of the collection – business and outerwear – in the second half of the season demand decreased somewhat and growth remained below the exceptionally high figure achieved in the first quarter.

Wholesale

Baltika's wholesale revenue for the first half-year amounted to 1,266 thousand euros, 15% down from the first half of 2010. At the same time, wholesale revenue to comparable customers grew by 18%. In the first half of 2010, 28% of the Group's wholesale revenue was generated by the products of AS Virulane whose brands have to date been divested.

The largest sales growth was achieved in 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 beginning 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 to Stockmann has increased in connection with the opening of Stockmann's new stores in the Russian market (particularly the flagship store in St Petersburg).

FINANCIAL PERFORMANCE

Distribution expenses for the second quarter decreased by 8% to 6,535 thousand euros. The retail system's store operating expenses were almost 10% smaller than in the previous year and costs per square metre decreased by around 1.4%. The positive trend in cost development results from the restructuring of the store network, particularly the closure of Europeysky, the Group's flagship store in Moscow, at the beginning of April. Comparable market and store operating expenses have grown somewhat because in the previous year several

lease contracts were granted crisis-induced price concessions which to date have expired. Economic recovery in Baltika's target markets has increased pressure on lease and labour expenses but the Group considers cost control a priority and continues to scrutinise its expenses.

Administrative and general expenses for the second quarter have grown compared with the second quarter of 2010 mostly because of a rise in salary expenses (the Group has hired some new professionals with long-term international experience including the manager of retail operations and visual merchandising) and banking charges. Other operating income and other operating expenses for the second quarter were influenced by unfavourable movements in foreign exchange rates. Other operating income and other operating expenses for the second quarter of 2011 include a foreign exchange loss of 94 thousand euros whereas in the first quarter of 2010 the items included foreign exchange gain of 304 thousand euros.

The Group's gross profit for the second quarter of 2011 was 7,315 thousand euros, a 4% increase year-over-year on a sales area that was 8% smaller on average. The vigorous growth may be attributed to a higher gross margin. The Group's gross margin for the second quarter was 58% (Q2 2010: 56%).

Second quarter operating loss from the core business was 99 thousand euros compared with 511 thousand euros incurred in the second quarter of 2010.

Operating loss for the first half-year was 2,194 thousand euros compared with 2,514 thousand euros for the first half of 2010. The figure for the previous year was improved by the divestment in the first quarter 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 half of 2010 movements in foreign exchange rates had a positive impact and Baltika Group earned foreign exchange gain of 840 thousand euros in contrast to a foreign exchange loss of 269 thousand euros incurred in the first half of 2011.

The Group's finance costs for the second quarter of 2011 were 332 thousand euros, a 10% decrease year-over-year. The largest finance cost item was interest expense. At the end of the second quarter of 2011, the weighted average loan interest rate for the Group's loan portfolio was 6.40% (Q2 2010: 5.66%).

Baltika Group ended the second quarter of 2011 with a net loss of 444 thousand euros. The net loss for the second quarter of 2010 was 886 thousand euros.

FINANCIAL POSITION

At 30 June 2011, Baltika Group had total assets of 39,915 thousand euros, 1% up on 31 December 2010.

Trade and other receivables remained stable compared with the previous year-end, totalling 2,963 thousand euros at the end of the quarter. Trade receivables decreased by 5% to 1,194 thousand euros. The net amount of trade receivables includes the allowance for doubtful receivables of 34 thousand euros.

At the end of the second quarter, inventories totalled 12,887 thousand euros, an increase of 2,083 thousand euros, i.e. 19% compared with the previous year-end. Above all, the Group has increased purchases of fabric and other materials so as to be able to respond flexibly to customer expectations and prepare for larger sales in the third quarter. Inventory turnover rate has also improved compared with the previous year.

Trade payables as at the end of the second quarter totalled 9,538 thousand euros, an increase of 2,557 thousand euros on the year-end figure. The rise is attributable to growth in inventory purchases.

At the end of the second quarter, the Group's net debt (interest-bearing liabilities less cash and bank balances) was 19,654 thousand euros. The net debt to equity ratio was 201%. The Group's equity as at 30 June 2011 amounted to 9,773 thousand euros.

INVESTMENT

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

PEOPLE

At 30 June 2011, Baltika Group employed a total of 1,420 people (31 December 2010: 1,419): 808 (799) in the retail system, 432 (442) in manufacturing and 180 (178) at the head office and logistics centre. The period's average number of staff was 1,406 (6M 2010: 1,602).

Employee remuneration expenses for the first half of 2011 totalled 5,258 thousand euros (6M 2010: 5,238 thousand euros). The remuneration of the members of the supervisory council and management board totalled 154 thousand euros (6M 2010: 152 thousand euros).

ANNUAL GENERAL MEETING

The annual general meeting of the shareholders of AS Baltika that convened on 11 May 2011 approved the company's annual report for 2010 and decided to pay the holders of preference shares dividends as provided in the articles of association. In addition, the general meeting decided to cancel four million preference shares and to replace them with registered ordinary shares and to increase share capital by 40,000 thousand kroons.

Preference shares were cancelled and registered ordinary shares were issued in accordance with Section 12 Subsection 2 Clause 3 of the Securities Market Act to the following investors:

ING LUXEMBOURG S.A.	2,346,990	ordinary shares;
AS Genteel	977,837	ordinary shares;
OÜ Renum Invest	400,000	ordinary shares;
OÜ BMIG	125,173	ordinary shares;
TENLION OÜ	150,000	ordinary shares;
TOTAL	4,000,000	ordinary shares.

The annual general meeting decided to change the articles of association so that it would be possible to convert share capital and the par value of the shares from kroons to euros and to increase share capital in connection with this without making any additional contributions (through a bonus issue) by 1,917,518 euros. The conversion of the capital to euros does not affect the rights attaching to the shares or the ratio of the par values of the shares to share capital.

The change in share capital was registered in the Commercial Register on 30 May 2011. The new amount of share capital is 22,046,395 euros. The company has registered ordinary shares of one class with a par value of 0.70 euros each.

The annual general meeting appointed PricewaterhouseCoopers as the auditor of the company's financial statements for 2011.

In addition, the annual general meeting decided to increase the share capital of AS Baltika by issuing 3,150,000 additional registered ordinary shares with a par value of 0.70 euros and an issue price of one euro each. Share premium was to amount to 0.30 euros per share. The new shares were offered to existing and new investors through a public offering. As investors did not subscribe for a sufficient quantity of shares, the company cancelled the share issue.

On 27 June the supervisory council decided to increase the share capital of AS Baltika by the issue of 4,300,000 registered ordinary shares with a par value of 0.70 euros and an issue price of 0.70 euros each. The new shares are being offered to existing and new investors through a public offering and they can be subscribed for from 19 July to 2 August.

KEY FIGURES OF THE GROUP (Q2 2011)

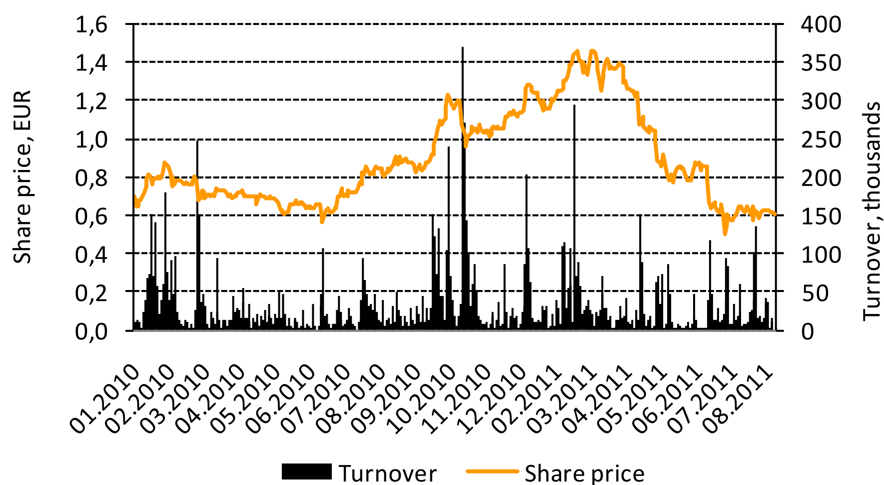
	30 June 2011	**30 June 2010**	+/-
Revenue (EUR thousand)	24,413	23,638	3.3%
Retail sales (EUR thousand)	22,847	21,913	4.3%
Share of retail sales in revenue	94%	93%	
Number of stores	116	128	-9.4%
Sales area (sqm)	23,582	25,730	-8.3%
Number of employees (end of period)	1,420	1,520	-6.6%
Gross margin	54.1%	51.4%	
Operating margin	-9.0%	-10.6%	
EBT margin	-11.5%	-12.2%	
Net margin	-11.5%	-12.3%	
Current ratio	1.3	1.1	20.1%
Inventory turnover	4.89	4.25	15.2%
Debt to equity ratio	206.2%	130.5%	
Return on equity	-51.3%	-60.8%	
Return on assets	-15.5%	-15.3%	

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

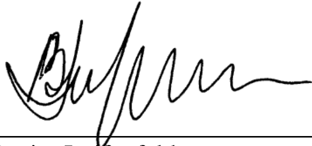


MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

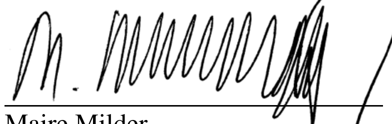
The management board confirms that the management report presents a true and fair view of all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements; includes the description of major risks and doubts influencing 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 August 2011

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



Boriss Loifenfeld
Member of the management board
24 August 2011



Maire Milder
Member of the management board
24 August 2011

Andrew Paterson
Member of the management board
24 August 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 second quarter and six months of 2011 as presented on pages 13-31.

The management board confirms that:

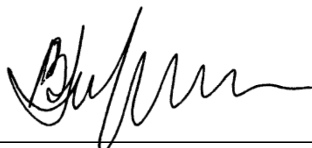
1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;

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;

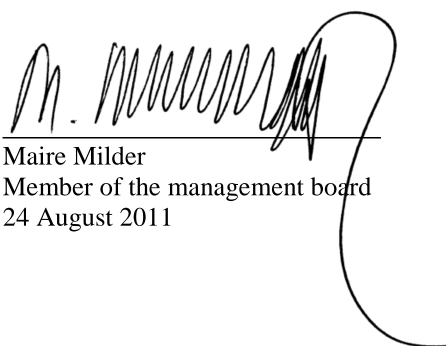
3. all group companies are going concerns.

Meelis Milder
Chairman of the management board
24 August 2011

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



Boriss Loifenfeld
Member of the management board
24 August 2011



Maire Milder
Member of the management board
24 August 2011

Andrew Paterson
Member of the management board
24 August 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2011	31 December 2011
ASSETS			
Current assets			
Cash and bank	3	602	823
Trade and other receivables	4	2,963	3,119
Inventories	5,13	12,887	10,804
Total current assets		**16,452**	**14,746**
Non-current assets			
Deferred income tax asset		838	838
Other non-current assets	6	775	780
Investment property	7	7,069	7,069
Property, plant and equipment	8	11,030	12,121
Intangible assets	9	3,751	3,898
Total non-current assets		**23,463**	**24,706**
TOTAL ASSETS		**39,915**	**39,452**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	10	2,910	2,125
Trade and other payables	11	9,538	6,981
Total current liabilities		**12,448**	**9,106**
Non-current liabilities			
Borrowings	10	17,642	17,953
Other liabilities	11	4	37
Total non-current liabilities		**17,646**	**17,990**
TOTAL LIABILITIES		**30,094**	**27,096**
EQUITY			
Share capital at par value	12	22,046	20,129
Share premium		22	1,332
Reserves	12	2,244	2,784
Retained earnings		-11,305	-4,961
Net loss for the period		-2,808	-6,344
Currency translation differences		-540	-746
Total equity attributable to equity holders of the parent		**9,659**	**12,194**
Non-controlling interest		162	162
TOTAL EQUITY		**9,821**	**12,356**
TOTAL LIABILITIES AND EQUITY		**39,915**	**39,452**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q2 2011	Q2 2010	6M 2011	6M 2010
Revenue	13,14	12,642	12,591	24,413	23,638
Cost of goods sold	15	-5,327	-5,564	-11,207	-11,487
Gross profit		**7,315**	**7,027**	**13,206**	**12,151**
Distribution costs	16	-6,535	-7,103	-13,563	-14,051
Administrative and general expenses	17	-751	-634	-1,494	-1,341
Other operating income	18	-3	298	3	885
Other operating expenses	19	-125	-99	-346	-158
Operating loss	13	**-99**	**-511**	**-2,194**	**-2,514**
Finance income	20	-6	22	15	233
Finance costs	20	-332	-369	-619	-599
Loss before income tax		**-437**	**-858**	**-2,798**	**-2,880**
Income tax expense		-7	-28	-10	-32
Net loss		**-444**	**-886**	**-2,808**	**-2,912**
Loss attributable to:					
Equity holders of the parent company		-444	-883	-2,808	-2,925
Non-controlling interest		0	-3	0	13
Other comprehensive income (loss)					
Currency translation differences		74	-151	206	-122
Total comprehensive loss		**-370**	**-1,037**	**-2,602**	**-3,034**
Comprehensive loss attributable to:					
Equity holders of the parent company		-370	-1,034	-2,602	-3,047
Non-controlling interest		0	-3	0	13
Basic earnings per share, EUR	21	-0.02	-0.05	-0.10	-0.15
Diluted earnings per share, EUR	21	-0.02	-0.05	-0.10	-0.15

CONSOLIDATED CASH FLOW STATEMENT

	Note	6M 2011	6M 2010
Operating activities			
Operating loss		-2,194	-2,514
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	8,9	1,271	1,531
Loss (gain) from disposal of PPE and investment property		-3	12
Other non-monetary expenses		269	-637
Changes in working capital:			
Change in trade and other receivables	4	139	-922
Change in inventories	5	-2,083	1,235
Change in trade and other payables	11	2,678	-2,893
Interest paid		-593	-609
Income tax paid		-129	-210
Net cash generated from operating activities		**-645**	**-5,007**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	8,9	-45	-116
Under the finance lease terms		0	43
Proceeds from disposal of property, plant and equipment		2	1,572
Net cash used in investing activities		**-43**	**1,499**
Financing activities			
Received borrowings	10	1,193	639
Repayments of borrowings	10	-660	-1,520
Change in bank overdraft	10	35	-800
Repayments of finance lease and other liabilities		-114	-128
Receipts from share issue		0	6,787
Dividend paid for preference shares		0	-92
Bonds transactions		-1	0
Net cash generated from financing activities		**453**	**4,886**
Effect of exchange gains (losses) on cash and cash equivalents		14	232
Total cash flows		**-221**	**1,610**
Cash and cash equivalents at the beginning of the period	3	**823**	**385**
Cash and cash equivalents at the end of the period	3	**602**	**1,995**
Change in cash and cash equivalents		**-221**	**1,610**

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 December 2009	**14,473**	**67**	**2,784**	**-4,961**	**-601**	**11,762**	**162**	**11,924**
Profit (loss) for the period	0	0	0	-2,925	0	-2,925	13	-2,912
Other comprehensive loss	0	0	0	0	-122	-122	0	-122
Total comprehensive income (loss)	0	0	0	-2,925	-122	-3,047	13	-3,034
Increase of share capital	5,656	1,131	0	0	0	6,787	0	6,787
Balance at 30 June 2010	**20,129**	**1,198**	**2,784**	**-7,886**	**-723**	**15,502**	**175**	**15,677**
Balance at 31 December 2010	**20,129**	**1,332**	**2,784**	**-11,305**	**-746**	**12,194**	**162**	**12,356**
Loss for the period	0	0	0	-2,808	0	-2,808	0	-2,808
Other comprehensive income	0	0	0	0	206	206	0	206
Total comprehensive income (loss)	0	0	0	-2,808	206	-2,602	0	-2,602
Equity-settled share-based transactions	0	67	0	0	0	67	0	67
Increase of share capital	1,917	-1,377	-540	0	0	0	0	0
Balance at 30 June 2011	**22,046**	**22**	**2,244**	**-14,113**	**-540**	**9,659**	**162**	**9,821**

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 six months ended 30 June 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 67% 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 –0.70% (2010: +9.48%), Ukrainian hryvnia –5.71% (2010: +0.37%), Polish zloty +1.07% (2010: +10.12%) and Latvian lat +0.18% (2010: -0.27%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was –5.86% (2010: +0.42%).

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 30 June 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 30 June 2011 the maximum exposure to credit risk from trade receivables (Note 4) amounted to 1,194 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 872 thousand euros (31 December 2010: 883 thousand euros), including balances with the Eastern European wholesale partners of 847 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 30 June 2011

		Undiscounted cash flows[1]		
	Carrying amount	1-6 months[2]	1-5 years	Total
Borrowings (Note 10)[3]	20,012	2,848	20,343	23,191
Finance lease liabilities (Note 10)	244	124	151	275
Trade payables (Note 11)	6,938	6,938	0	6,938
Other financial liabilities (Note 10,11)[4]	266	266	0	266
Total	**27,460**	**10,176**	**20,494**	**30,670**

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 10,11)[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 67 thousand euros (31 December 2010: 105 thousand euros) and dividends liabilities of preference shares in amount of 199 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 achieve 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 gearing ratio was influenced by the earned comprehensive loss.

Gearing ratios of the Group

	30 June 2011	31 Dec 2010
Total borrowings (Note 10)	20,256	19,821
Cash and bank (Note 3)	-602	-823
Net debt	19,654	18,998
Total equity	9,773	12,356
Total capital	29,427	31,354
Gearing ratio	**67%**	**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 30 June 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

	30 June 2011	31 Dec 2010
Cash in hand	170	301
Cash at bank	432	452
Short-term deposits	0	70
Total	**602**	**823**

Cash and bank by currency

	30 June 2011	31 Dec 2010
RUB (Russian rouble)	200	114
EUR (euro)	149	97
UAH (Ukrainian hryvnia)	115	164
PLN (Polish zloty)	63	146
LTL (Lithuanian lit)	50	94
LVL (Latvian lat)	25	53
EEK (Estonian kroon)	0	155
Total	**602**	**823**

NOTE 4 Trade and other receivables

	30 June 2011	31 Dec 2010
Trade receivables, net	1,194	1,253
Other prepaid expenses	928	888
Tax prepayments and tax reclaims, thereof	626	684
Value added tax	621	662
Other taxes	5	22
Other current receivables	215	294
Total	**2,963**	**3,119**

Trade receivables

	30 June 2011	31 Dec 2010
Trade receivables, gross	1,228	1,287
Allowance for impairment of trade receivables	-34	-34
Trade receivables, net	**1,194**	**1,253**

Trade receivables (net) by due date

	30 June 2011	31 Dec 2010
Not due	1,064	1,206
Up to 1 month past due	92	41
1-3 months past due	26	2
3-6 months past due	12	0
Over 6 months past due	0	4
Total	**1,194**	**1,253**

Trade receivables (net) by denominating currency

	30 June 2011	31 Dec 2010
EUR (euro)	1,092	901
LVL (Latvian lat)	39	57
RUB (Russian rouble)	32	28
LTL (Lithuanian lit)	25	36
PLN (Polish zloty)	6	6
EEK (Estonian kroon)	0	220
UAH (Ukrainian hryvnia)	0	5
Total	**1,194**	**1,253**

NOTE 5 Inventories

	30 June 2011	31 Dec 2010
Fabrics and accessories	1,833	1,344
Allowance for impairment of fabrics and accessories	-13	-13
Work-in-progress	81	72
Finished goods and goods purchased for resale	10,626	9,409
Allowance for impairment of finished goods and goods purchased for resale	0	-320
Prepayments to suppliers	360	312
Total	**12,887**	**10,804**

NOTE 6 Other non-current assets

	30 June 2011	31 Dec 2010
Non-current lease prepayments	385	390
Other long-term receivables	390	390
Total	**775**	**780**

NOTE 7 Investment property

	2011	2010
Balance at 1 January	**7,069**	**6,602**
Balance at 30 June	**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 construc-tion rights	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Pre-pay-ments	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	19	14	67	7	0	107
Disposals	-11	-1,452	-64	-45	0	0	-1,572
Reclassification	0	29	11	-36	-4	0	0
Depreciation	0	-531	-257	-587	0	0	-1,375
Currency translation differences[1]	0	94	46	155	1	2	298
At 30 June 2010							
Acquisition cost	**0**	**12,915**	**5,914**	**7,867**	**11**	**13**	**26,720**
Accumulated depreciation	0	-3,015	-4,282	-5,145	0	0	-12,442
Net book amount	**0**	**9,900**	**1,632**	**2,722**	**11**	**13**	**14,278**

	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	14	22	2	0	2	40
Disposals	0	-19	4	16	-3	0	-2
Reclassifications to inventories	0	0	-10	-3	0	0	-13
Reclassification	0	10	2	-3	-8	-1	0
Depreciation	0	-385	-237	-482	0	0	-1,104
Currency translation differences[1]	0	-11	5	-2	-1	-3	-12
At 30 June 2011							
Acquisition cost	**0**	**11,595**	**5,838**	**6,893**	**7**	**11**	**24,344**
Accumulated depreciation	0	-3,384	-4,636	-5,294	0	0	-13,314
Net book amount	**0**	**8,211**	**1,202**	**1,599**	**7**	**11**	**11,030**

[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	2	0	7	0	9
Disposals	-11	0	0	0	-11
Amortisation	-140	-16	0	0	-156
Currency translation differences[1]	18	0	0	199	217
At 30 June 2010					
Acquisition cost	**2,710**	**643**	**7**	**2,094**	**5,454**
Accumulated depreciation	-1,301	-123	0	0	-1,424
Net book amount	**1,409**	**520**	**7**	**2,094**	**4,030**

	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	5	0	0	0	5
Disposals	-1	0	0	0	-1
Reclassification	13	0	-13	0	0
Depreciation	-151	-16	0	0	-167
Currency translation differences[1]	-1	0	0	17	16
At 30 June 2011					
Acquisition cost	**2,830**	**643**	**10**	**2,065**	**5,548**
Accumulated depreciation	-1,642	-155	0	0	-1,797
Net book amount	**1,188**	**488**	**10**	**2,065**	**3,751**

[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

	30 June 2011	31 Dec 2010
Current borrowings		
Current portion of non-current bank loans	1,472	1,697
Current finance lease liabilities	139	233
Other current loans	1,100	0
Liability component of preference shares	199	195
Total	**2,910**	**2,125**
Non-current borrowings		
Non-current bank loans	17,440	17,747
Non-current finance lease liabilities	105	144
Convertible bonds	97	62
Total	**17,642**	**17,953**
Total borrowings	**20,552**	**20,078**

During the reporting period, the Group made loan repayments in the amount of 660 thousand euros) (2010: 1,520 thousand euros). Loan interest expense of the reporting period amounted to 618 thousand euros (2010: 609 thousand euros).

Loans and the liability component of the preference shares of the Group at 30 June 2011

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	18,912	4.59%
Borrowings at fixed interest rate	1,100	12.00%
Liability component of preference shares	199	10.00%
Total	**20,211**	

Bank loans and the liability component of the preference shares 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

	30 June 2011	31 Dec 2010
Current liabilities		
Trade payables	6,938	4,355
Tax liabilities, thereof	1,438	1,610
Personal income tax	189	158
Social security taxes	441	429
Value added tax	751	840
Corporate income tax liability	2	117
Other taxes	55	66
Payables to employees[1]	1,033	767
Other accrued expenses[2]	67	105
Customer prepayments	18	40
Other current payables	44	104
Total	**9,538**	**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 48 thousand euros (31 December 2010: 28 thousand euros) and other accrued expenses in the amount of 18 thousand euros (31 December 2010:76 thousand euros).
[3]Other non-current liabilities consist of deferred income.

Trade payables by denominating currency

	30 June 2011	31 Dec 2010
EUR (euro)	3,635	933
USD (US dollar)	3,039	1,705
RUB (Russian rouble)	93	125
PLN (Polish zloty)	71	164
LVL (Latvian lat)	48	44
LTL (Lithuanian lit)	27	82
EEK (Estonian kroon)	0	1,280
Other currencies	25	22
Total	**6,938**	**4,355**

NOTE 12 Equity

Share capital

	30 June 2011	31 Dec 2010
Share capital	22,046	20,129
Number of shares, pcs	31,494,850	31,494,850
Nominal value of shares, EUR	0.70	0.64
Statutory reserve	652	1,192
Revaluation surplus	1,592	1,592

Under the Articles of Association, the company's minimum share capital is 10,000 thousand euros and the maximum share capital is 40,000 thousand euros. All shares have been paid for.

The annual general meeting of the shareholders of AS Baltika that convened on 11 May 2011 decided to convert the share capital of the Company and the par value of the shares from kroons to euros as on 1 January 2011, the Republic of Estonia joined the Euro area. In order to undertake the conversion of the share capital to euros, the general meeting decided to increase the share capital without making any additional contributions (through a bonus issue) by 1,917 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 0.70 euro.

The annual general meeting, resolved to cancel 4,000,000 preference shares and convert them into ordinary shares, as well.

Change in the number of shares

	Issue	Number of shares
Number of shares at 31 December 2009, thereof		**22,644,850**
Issued at 21 June 2010	Issue of ordinary shares	8,850,000
Number of shares at 31 December 2010, thereof		**31,494,850**
Cancelled at 31 May 2011	Cancelling of preference shares	-4,000,000
Issued at 31 May 2011	Issue of ordinary shares	4,000,000
Number of shares at 30 June 2011		**31,494,850**

Shareholders at 30 June 2011

	Number of shares	Holding
ING Luxembourg S.A.	5,596,990	17.77%
BMIG OÜ	4,770,533	15.15%
Skandinaviska Enskilda Banken Ab clients	3,261,033	10.35%
E. Miroglio S.A.	3,000,000	9.53%
Svenska Handelsbanken clients	1,910,000	6.06%
Members of management and supervisory boards and persons related to them		
Meelis Milder	726,336	2.31%
Maire Milder	316,083	1.00%
Boriss Loifenfeld	200,366	0.64%
Andrew Paterson	11,000	0.03%
Other shareholders	11,702,509	37.16%
Total	**31,494,850**	**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 31,494,850 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 30 June 2011 and at 30 June 2010 is as follows

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total
6M 2011 and at 30 June 2011						
Revenue (from external customers)	14,187	8,055	605	1,341	225	24,413
Segment profit (loss)[2]	1,949	31	-127	396	202	2,451
Incl. depreciation and amortisation	-521	-361	-57	0	0	-939
Inventories of segments	3,006	1,908	112	0	0	5,026
6M 2010 and at 30 June 2010						
Revenue (from external customers)	13,028	8,179	706	1,552	172	23,638
Segment profit (loss)[2]	952	93	-258	276	109	1,172
Incl. depreciation and amortisation	-626	-435	-72	-17	0	-1,150
Inventories of segments	3,058	2,148	169	0	0	5,376

[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

	6M 2011	6M 2010
Total profit for reportable segments	2,451	1,172
Unallocated expenses[1]:		
Distribution costs	-2,808	-3,072
Administrative and general expenses	-1,494	-1,341
Other operating income (expenses), net	-343	726
Operating profit (loss)	**-2,194**	**-2,514**

[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

	30 June 2011	31 Dec 2010	30 June 2010
Total inventories of segments	5,026	5,043	5,376
Inventories in Parent company and production companies	7,861	5,761	5,416
Inventories on balance sheet	**12,887**	**10,804**	**10,792**

NOTE 14 Revenue

	6M 2011	6M 2010
Sale of goods	24,113	23,404
Lease revenue	225	172
Sale of sewing services	60	35
Other	15	27
Total	**24,413**	**23,638**

NOTE 15 Cost of goods sold

	6M 2011	6M 2010
Materials and supplies	9,410	9,585
Payroll costs in production	1,475	1,461
Operating lease expenses	341	326
Other production costs	181	200
Depreciation of assets used in production (Note 8,9)	115	129
Change in inventories	5	106
Change in allowance for inventories	-320	-320
Total	**11,207**	**11,487**

NOTE 16 Distribution costs

	6M 2011	6M 2010
Operating lease expenses	5,260	5,518
Payroll costs	4,980	5,012
Depreciation and amortisation (Note 8,9)	962	1,214
Advertising expenses	581	554
Fuel, heating and electricity costs	364	309
Fees for card payments	180	167
Financial and management fees	174	127
Municipal services and security expenses	136	161
Freight costs	121	119
Information technology expenses	107	85
Travel expenses	91	78
Communication expenses	85	90
Bank fees	50	63
Renovation expenses of retail outlets	48	44
Packaging costs	45	44
Training expenses	28	23
Expenses for uniforms	8	22
Other sales expenses[1]	343	421
Total	**13,563**	**14,051**

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

NOTE 17 Administrative and general expenses

	6M 2011	6M 2010
Payroll costs[1]	671	610
Depreciation and amortisation (Note 8,9)	188	182
Information technology expenses	132	101
Bank fees	128	129
Fuel, heating and electricity expenses	47	44
Training expenses	39	5
Operating lease expenses	24	33
Communication expenses	20	24
Sponsorship	17	13
Municipal services and security expenses	13	13
Travel expenses	6	0
Other administrative expenses[2]	209	187
Total	**1,494**	**1,341**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount 67 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

	6M 2011	6M 2010
Foreign exchange income	0	609
Gain from sale of non-current assets	2	18
Other operating income[1]	1	258
Total	**3**	**885**

[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

	6M 2011	6M 2010
Foreign exchange losses	282	0
Loss from sale and writing off of non-current assets	0	17
Fines, penalties and tax interest	20	55
Representation costs	2	2
Other operating expenses	42	84
Total	**346**	**158**

NOTE 20 Finance income and costs

	6M 2011	6M 2010
Interest costs	-618	-598
Foreign exchange income (losses)	14	232
Other finance income	1	0
Other finance costs	-1	0
Total	**-604**	**-366**

NOTE 21 Earnings per share

Basic earnings per share

		6M 2011	6M 2010
Weighted average number of shares	pcs	28,179,933	19,131,600
Net loss attributable to equity holders of the parent		-2,808	-2,925
Basic earnings per share	EUR	**-0.10**	**-0.15**

Diluted earnings per share

		6M 2011	6M 2010
Weighted average number of shares	pcs	28,179,933	19,131,600
Net loss attributable to equity holders of the parent		-2,808	-2,925
Diluted earnings per share	EUR	**-0.10**	**-0.15**

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to earnings as at 30 June 2011 and 30 June 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 six months of 2011 was 1.14 euros (2010: 0.71 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

	6M 2011	6M 2010
Purchases of goods	289	178
Purchases of services	110	103
Total	**399**	**281**

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

	30 June 2011	31 Dec 2010
Loans and interests	1,029	0
Trade payables	219	86
Total	**1,248**	**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 0.0064 euros should be issued within the framework of the Group’s management incentive program. Each bond entitles its holder to subscribe for one share of the company with a nominal value of 0.70 euros. The share subscription period for G-bonds shall be from 1 July 2012 until 31 December 2012. The share subscription price is 0.77 euros. Totally were subscribed 1,842 500 bonds.

	Issue date	Bond conversion period	Number of convertible bonds 30 June 2011	Number of convertible bonds 31 Dec 2010
G-Bond	30.06.2009	01.07.2012-31.12.2012	1,842,500	1,842,500