



Baltika Group

AS BALTIKA

Consolidated interim report for the fourth quarter and 12 months of 2013

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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 December 2013



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BRIEF DESCRIPTION OF BALTIKA GROUP

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

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

As at 31 December 2013 the Group employed 1,345 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 Dec 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%
Baltika Retail Ukraina Ltd ¹	Ukraine	Retail	100%	-
OOO Kompania „Olivia“ ¹	Russia	Retail	100%	100% ²
OOO Kompania “Baltman RUS” ¹	Russia	Retail	-	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%

¹Interest through a subsidiary.

²As at 31 December 2012 was a subsidiary of the Russian market's company OOO Kompania “Baltman RUS”.



MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, FOURTH QUARTER AND YEAR 2013

Baltika ended the fourth quarter with 1,024 thousand euros profit before tax and net profit was 865 thousand euros. The year 2013 profit before tax was 269 thousand euros and net profit 102 thousand euros.

After a weak third quarter the fourth quarter showed improvement of results. Although the unusual warm autumn weather lasted till the end of the year and realisation of stock was at lower margins than planned due to weak start of the season, Baltika reached close to the level of results of best quarters in last years.

Group total revenue increased by 506 thousand euros i.e. 3% compared to the fourth quarter of previous year. Particular positive is the development of wholesale and e-commerce that sales increased by 56% in the fourth quarter which meets the expectations set for 2013 to develop also other sale channels and increase sales volumes through wholesale and franchise partners.

The retail sales also grew after the third quarter 2% decline: fourth quarter increase of 1% signifies yearly total growth of 4%. The Baltics showed strongest growth in retail in the fourth quarter (7%) with the highest sales increase in Latvia (12%). Yearly the largest growth was achieved by Estonia (12%), followed by Latvia (9%) and Lithuania (2%).

While the results of Baltic countries are satisfactory, then Eastern-Europe had negative impact on the overall results. Retail sales in Russia decreased by 19% in the fourth quarter. The uncertainty of economic future, weakening rouble (rouble weakened ca 11% during the year 2013) and risen prices have significantly decreased consumer confidence and are stopping the recovery in fashion retail.

Retail sales in Ukraine decreased by 2% in the fourth quarter, but in local currency small growth with 2% was achieved. The rising political conflict and weakening hryvna in the second half year have added to the country's economic crisis. Uncertain politic and economic situation deteriorates both consumer demand and international trade.

Company's gross margin for the fourth quarter was 54.3%, a decrease of 1.8 percentage points year-over-year. The slide in the margin is attributable to problems in Russian and Ukrainian markets and weak sales results in the third quarter due to which the stock was realized in the fourth quarter with lower margins than planned. There was also price pressure from intensifying competition and growth of sales area in the Baltic countries.

Main courses of action for 2014

While the first half-year of 2013 met the expectation of the company, then the negative second half-year developments in Ukraine and Russia with very weak third quarter result do not allow to consider the yearly financial result sufficient. One of the main targets for 2014 is to carry out the plan to minimise the risks of Ukraine and Russia impacting group total results. One of the options towards which action is taken is changing the model of operating in these markets.

In addition, in 2014 focus is on strengthening the position in the Baltic countries and continued development of other sales channels. Baltic retail is core to the company's economic stability and ground for growth. To maintain the position in the Baltic market with tight competition - renovation and opening of new stores is needed. Work is continued to expand franchise network and preparation has been started to launch the sale of all brands in addition to Monton through international e-commerce by the end of 2014.

Financial position

Achieving the targets for 2014 requires investments and sufficient financing of working capital. In accordance with the investment plan disclosed in the second half of year 2012 retail network requires investments and stronger working capital position will allow better possibilities for decision making and increasing profitability.

While the initial investment plan foresaw that 2013 positive cash-flow provides for the required investments then below planned results necessitated the need to work out 2014 financing plan, which



includes both bank and investors. Notion has been agreed with banks to increase the overdraft limit by up to 2 million euros which will cover most cost efficiently the seasonal need for larger working capital. Supervisory Council has decided to propose shareholders employing 2 million euros for 3 years through public offering of convertible bonds. Largest shareholder of Baltika KJK Fund, Sicav-SIF will take up the offer in full amount if needed.

Highlights of the period until the date of release of this quarterly report

- ✘ In October, Valanga OOO, Baltika's franchise partner in Belarus, opened the first two Monton brand stores in Minsk. The total area of the stores is 380 sqm. According to plan, in the next five years at least five Monton stores, with a sales area of 150-250 sqm, will be opened in Belarus.
- ✘ In October, Batman's designer Aivar Lätt *alias* Antonio received the highest recognition in the Estonian fashion world – the Golden Needle award. According to Antonio, his special Baltman Limited Edition collection, which was created for the Golden Needle, represents the essence of his work so far. Baltika's designers have been rewarded with Golden Needle award eight times throughout the years.
- ✘ At the end of October, Monton presented to the media and the guests of the Estonian Olympic Committee the collection of outfits created for the 2014 Sochi Winter Olympics. The limited collection combines the Estonian national colours and ethnic patterns and stands out for its clean and clear colour solution. The outfit created for the Olympic delegation received attention and recognition both in local media and abroad.
- ✘ Baltman, Baltika's brand with longest history, opened in November in Akropolis shopping centre in Vilnius, Lithuania new concept store which was developed in co-operation with creative agency Dan Pearlman. The first Baltman flagship store with new look was opened in September in Rocca al Mare shopping centre in Tallinn, Estonia. The interior design of the new concept store has been nominated for 2013 annual prize of Estonian Interior Decorators Union.
- ✘ NASDAQ OMX recognized in January Baltic listed companies with the best investor relations and where Baltika received the prize in two categories - best investor relationship on NASDAQ OMX Baltic market and the best Annual and Corporate Governance report. Third place was achieved in both categories.
- ✘ In the fourth quarter, the number of the Group's stores grew by five. Two new stores – Monton and Mosaic - were opened in October in Gulliver shopping centre in Kiev, Ukraine and Blue Inc. London store in Rocca al Mare shopping centre in Tallinn, Estonia. In November new concept Baltman store was opened in Akropolis shopping centre in Vilnius, Lithuania and Baltika outlet store in Ülemiste shopping centre in Tallinn, Estonia which will remain open until the shopping centre is under renovation - until March. Two stores were closed in January – Mosaic store in Piramida shopping centre in Kiev, Ukraine and Monton store in Planeta shopping centre in Krasnojarsk, Russia. Due to ending contracts Monton, Baltman and Bastion stores will be closed in March and April in Viru Keskus shopping centre in Tallinn Estonia.
- ✘ Council decided on 26 February 2014 to propose to the annual general meeting of shareholders to issue convertible bonds with bondholder option in the total amount of 2 million euros. Price for the exchanged shares is 60 days prior to decision average market price – 0.58 euros. The 3 year convertible bonds with 7.5% interest will be issued through public offering.

REVENUE

Baltika fourth quarter sales increased by 3%. Sales of clothing in wholesale and e-com showed 56% growth, retail growth was 1%. Due to sale of Baltika Quarter real-estate in 2012, rental income has decreased by 403 thousand euros.

**Revenue by activity**

EUR thousand	Q4 2013	Q4 2012	+/-	12m 2013	12m 2012	+/-
Retail	15,754	15,528	1%	54,592	52,665	4%
Wholesale and e-com	913	587	56%	3,635	3,018	20%
Rent	-2	2	-200%	0	403	-100%
Other	29	71	-59%	126	246	-49%
Total	16,694	16,188	3%	58,353	56,332	4%

Retail

Fourth quarter showed signs of improvement compared to the weak third quarter. In Fourth quarter all markets except Russia improved their growth figures compared to those of previous quarter. Consumer buying increased in fourth quarter, but sales growth remained modest due to discounts higher than usual. Bigger discounts were the result of weak sales in previous quarter, due to which the larger stock levels were realised with lower margins. Retail sales increased by 226 thousand euros i.e. 1% compared to fourth quarter of previous year. This results in yearly growth of 4%.

Sales growth of Baltic countries was 7% in the fourth quarter, with biggest contribution coming from Latvia with its 12%. Group result was negatively affected by Eastern-European result. Both Ukraine and Russia have been negatively impacted by currency exchange rate. Russian macro-economic figures and below-expected consumer spending together with Ukrainian complicated political situation have had its influence.

Retail sales by market

EUR thousands	Q4 2013	Q4 2012	+/-	Share	12m 2013	12m 2012	+/-	Share
Estonia	5,493	5,002	10%	35%	18,292	16,281	12%	34%
Lithuania	3,308	3,365	-2%	21%	11,133	10,895	2%	20%
Russia	2,141	2,634	-19%	14%	8,917	9,826	-9%	16%
Latvia	3,014	2,699	12%	19%	9,726	8,922	9%	18%
Ukraine	1,798	1,828	-2%	11%	6,524	6,742	-3%	12%
Total	15,754	15,528	1%	100%	54,592	52,665	4%	100%

Stores and sales area

The number of stores has increased by 5 with the quarter – to total of 124 stores. Two new stores – Monton and Mosaic- were opened in Gulliver shopping centre in Kiev, Ukraine and one Blue Inc store in Rocca Al Mare shopping centre in Tallinn, Estonia. New Baltman concept store was opened in November in Akropolis shopping centre in Vilnius, Lithuania and Baltika outlet store in December Ülemiste shopping centre in Tallinn, Estonia.

Stores by market

	31 Dec 2013	31 Dec 2012	Average area change
Estonia	39	36	13%
Lithuania	28	27	-1%
Russia	18	18	4%
Latvia	21	16	10%
Ukraine	18	16	0%
Total stores	124	113	
Total sales area, sqm	23,852	22,210	5%

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

Sales efficiency was impacted most by small sales growth and the addition of new stores, which volume has not reached full level as normal during the initial phase. Sales efficiency in the Baltics increased by 2%, but negative impact from Eastern-European countries brought the yearly total efficiency down to 1% decrease.

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

	Q4 2013	Q4 2012	+/-	12m 2013	12m 2012	+/-
Estonia	268	279	-4%	234	234	0%
Lithuania	198	201	-2%	169	163	4%
Russia	178	229	-22%	182	208	-12%
Latvia	262	277	-5%	228	229	0%
Ukraine	176	199	-12%	168	173	-3%
Total	222	239	-7%	199	201	-1%

Sales efficiency growth in local currency in 2013 was -7% in Russia and -1% in Ukraine.

Brands

The largest sales growth from brands came from Baltman and Mosaic, who also finished the full year with best results – both 6%. Due to sizeable sales decrease in third and fourth quarter in Russia, that is the largest distributor of Monton, brand yearly sales decreased by 3%.

Retail revenue by brand

EUR thousands	Q4 2013	Q4 2012	+/-	Share	12m 2013	12m 2012	+/-	Share
Monton	7,397	7,900	-6%	47%	26,275	27,005	-3%	48%
Mosaic	4,975	4,663	7%	32%	17,280	16,270	6%	32%
Baltman	1,411	1,310	8%	9%	4,898	4,613	6%	9%
Ivo Nikkolo	1,341	1,330	1%	9%	4,274	4,285	0%	8%
Bastion	436	107	307%	3%	1,491	107	1293%	3%
Blue Inc	164	0	0%	1%	203	0	0%	0%
Other	30	218	-86%	0%	171	385	-56%	0%
Total	15,754	15,528	1%	100%	54,592	52,665	4%	100%

*Bastion stores operations included from December 2012

The biggest growth for Baltman came from Lithuania while for Mosaic from Latvia. Baltman sales were enhanced by the new concept store opened in Akropolis, Vilnius and growth of sales of Stones trade-mark clothes.

Wholesale and e-com

Sales of wholesale and e-com were 913 thousand euros in 2013 fourth quarter, an increase of 56% compared to previous year. This includes strong growth of both traditional wholesale (47%) and e-com (164%).

Sale to franchise partner in Belarus, who opened its first stores in Minsk in the beginning of October, continued to grow in the fourth quarter. New Mosaic partner who operates retail chain was found in Russia, while sales to current largest client have also grown. New client for Mosaic was also found in Latvia and sales through an agent was started in Finland.

OPERATING EXPENSES AND NET PROFIT

Gross profit margin was 54.3% in the fourth quarter that is 1.8 percentage points lower than same period in prior year. The slide in the margin is attributable to bigger discounts than planned, that were the result of weak sales and larger stock levels in the third quarter. Gross profit for the quarter was 9,060 thousand euros. Total year gross profit amounted to 31.215 thousand euros, increasing 2% and gross profit margin was 53.5% that is 1.0 percentage point behind last year results.

The average sales area increased by nine percentages in the fourth quarter. Due to the additional stores, distribution expenses have increased by four percentages. Devaluation of hryvna and rouble had impact to expenses – in Russia distribution expenses decreased by 5% (in local currency +4%) and in Ukraine decreased by 10% (in local currency -5%).

In the fourth quarter general and administrative expense was 741 thousand euros - same level than that of same period in prior year. Total year administrative expense increased by five percent. This includes rent expense increase of 257 thousand euros due to the sale of Baltika Quarter property.



Operating expense was 8,041 thousand euros in the fourth quarter and the ratio to revenue was 48% which is the same level as year before. Twelve months operating expense was 30,315 thousand euros and ratio to revenue was 52%.

Other operating expense was 126 thousand euros in the fourth quarter that is 15 thousand euros decrease compared to prior year. With the fourth quarter net operating expenses of 25 thousand euros the operating profit amounted to 994 thousand euros. Twelve months operating profit was 651 thousand euros, which included foreign exchange loss of 331 thousand euros. Foreign exchange loss recorded in operating profit was 76 thousand euros in last year.

Net financial expense in the fourth quarter was 30 thousand euros, the year's total expense was 382 thousand euros. Twelve months total interest expense decreased by 536 thousand euros and total expense by 522 thousand euros.

The result was impacted by decrease of gross margin and increase of distribution costs and amounted to quarterly net profit of 865 thousand euros. The total year EBITDA was 2,252 thousand euros and net profit was 102 thousand euros.

FINANCIAL POSITION

As at 31 December 2013, Group inventories totalled 13,751 thousand euros. Inventory has increased compared to last year end by 2,280 thousand euros i.e. 20%. Increase of inventory is mainly due to increase of finished goods, that was on one hand the result of lower than expected sales in August and September, due to which the goods purchased were not fully realised. On other hand, higher stock level was due to larger number of stores. As at the end of December the sales area has increased 7% y-o-y. In addition to that the level of inventory has increased due to the bigger proportion of manufactured products over out-sourced, which requires early intake.

Investing into retail network continued in the fourth quarter. Property, plant and equipment at cost increased by 372 thousand euros, which signifies twelve months total investments of 2,130 thousand euros. Total year depreciation was 1,281 thousand euros and in total the fixed assets residual value increased by 767 thousand euros compared to last year-end.

Fourth quarter cash-flow from operating activities was 2,368 thousand euros (fourth quarter of 2012: 2,143 thousand euros). Investment program continued and 423 thousand euros were contributed to investment activities. Borrowings decreased by 1,829 thousand euros. Fourth quarter net cash inflow was 118 thousand euros.

As at 31 December Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 4,453 thousand euros, which has increased by 260 thousand euros compared to the end of last year. The net debt to equity ratio was 39% as at 31 December 2013 (31 December 2012: 41%).

PEOPLE

As at 31 December 2013, Baltika Group employed a total of 1,345 people that is 57 people more than as at 31 December 2012 (1,288): 752 (31.12.2012: 709) in the retail system, 400 (394) in manufacturing and 193 (185) at the head office and logistics centre. The 2013 yearly average number of staff was 1,319 (2012: 1,288).

Baltika Group employees remuneration expense in 2013 amounted to 11,365 thousand euros (2012: 10,582 thousand euros). The accrued remuneration with taxes, of the members of the Supervisory Council and Management Board totalled 356 thousand euros (2012: 367 thousand euros).

KEY FIGURES OF THE GROUP (IV QUARTER AND 2013)

	Q4 2013	Q4 2012	Q4 2011	Q4 2010
Revenue (EUR thousand)	16,694	16,188	15,484	15,084
Retail sales (EUR thousand)	15,754	15,528	14,781	14,329
Share of retail sales in revenue	94%	96%	95%	95%
Gross margin	54.3%	56.1%	54.8%	55.1%
EBITDA (EUR thousand)	1,444	1,874	-345	661
EBITDA margin	8.6%	11.6%	-2.2%	4.4%
Operating margin	6.0%	9.1%	-9.8%	-3.1%



	12M and 31 Dec 2013	12M and 31 Dec 2012	12M and 31 Dec 2011	12M and 31 Dec 2010
EBT margin	6.1%	8.0%	-11.9%	-6.3%
Net margin	5.2%	6.6%	-12.1%	-8.5%
Revenue (EUR thousand)	58,353	56,332	53,409	52,207
Retail sales (EUR thousand)	54,592	52,665	50,072	48,643
Share of retail sales in revenue	94%	93%	94%	93%
Share of exports in revenue	66%	68%	70%	73%
Number of stores	124	113	115	120
Sales area at the end of period (sqm)	23,852	22,210	23,111	24,424
Number of employees (end of period)	1,345	1,288	1,363	1,419
Gross margin	53.5%	54.5%	53.1%	51.8%
EBITDA (EUR thousand)	2,252	3,725	-1,377	-1,242
EBITDA margin	3.9%	6.6%	-2.6%	-2.4%
Operating margin	1.1%	3.5%	-8.3%	-9.0%
EBT margin	0.5%	1.9%	-10.8%	-11.3%
Net margin	0.2%	1.4%	-11.0%	-12.1%
Current ratio	1.5	1.8	1.3	1.6
Inventory turnover	2.09	2.37	2.13	2.30
Net gearing ratio	38.7%	41.0%	181.0%	154.0%
Return on equity	1.0%	8.9%	-54.8%	-52.6%
Return on assets	0.4%	2.8%	-15.1%	-14.9%

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*

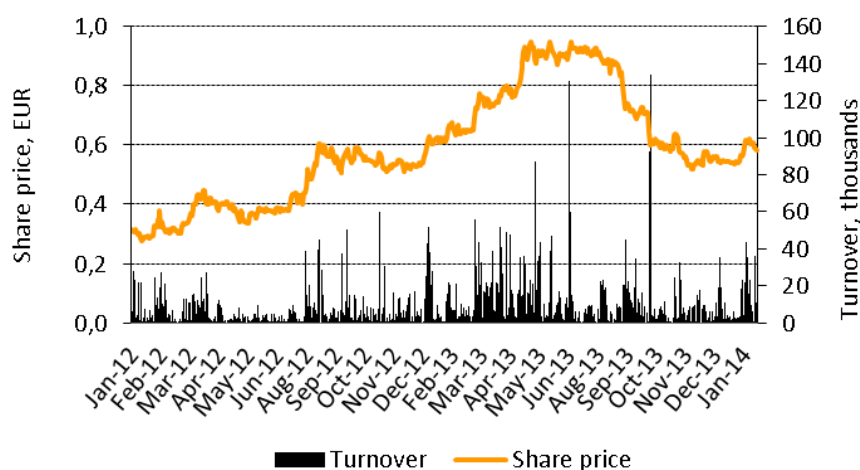
Net gearing ratio = (Interest-bearing liabilities-cash and cash equivalents)/Equity

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
26 February 2014

Maigi Pärnik-Pernik
Member of the Management Board
26 February 2014

Maire Milder
Member of the Management Board
26 February 2014

Andrew J. D. Paterson
Member of the Management Board
26 February 2014

Kati Kusmin
Member of the Management Board
26 February 2014



INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the fourth quarter and twelve months of 2013 as presented on pages 11-31.

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. the Group is going concern.

Meelis Milder
Chairman of the Management Board
26 February 2014

Maigi Pärnik-Pernik
Member of the Management Board
26 February 2014

Maire Milder
Member of the Management Board
26 February 2014

Andrew J. D. Paterson
Member of the Management Board
26 February 2014

Kati Kusmin
Member of the Management Board
26 February 2014

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Current assets			
Cash and cash equivalents	3	852	2,078
Trade and other receivables	4	1,514	1,836
Inventories	5	13,751	11,471
Total current assets		16,117	15,385
Non-current assets			
Deferred income tax asset		494	637
Other non-current assets	4	1,013	1,088
Property, plant and equipment	6	3,023	2,256
Intangible assets	7	3,693	4,150
Total non-current assets		8,223	8,131
TOTAL ASSETS		24,340	23,516
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	3,158	1,598
Trade and other payables	9	7,503	7,005
Total current liabilities		10,661	8,603
Non-current liabilities			
Borrowings	8	2,171	4,702
Other liabilities	9	0	25
Total non-current liabilities		2,171	4,727
TOTAL LIABILITIES		12,832	13,330
EQUITY			
Share capital at par value	10	8,159	7,159
Share premium		684	63
Reserves	10	1,182	1,182
Retained earnings		2,471	1,667
Net profit for the period		102	804
Currency translation differences		-1,090	-689
TOTAL EQUITY		11,508	10,186
TOTAL LIABILITIES AND EQUITY		24,340	23,516

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS**

	Note	Q4 2013	Q4 2012	2013	2012
Revenue	11,12	16,694	16,188	58,353	56,332
Cost of goods sold	13	-7,634	-7,109	-27,138	-25,615
Gross profit		9,060	9,079	31,215	30,717
Distribution costs	14	-7,300	-7,021	-27,446	-26,193
Administrative and general expenses	15	-741	-734	-2,869	-2,722
Other operating income	16	101	285	155	341
Other operating expenses	16	-126	-141	-404	-184
Operating profit		994	1,468	651	1,959
Finance income	17	6	0	6	61
Finance costs	17	24	-174	-388	-964
Profit before income tax		1,024	1,294	269	1,056
Income tax expense		-159	-219	-167	-251
Net profit		865	1,075	102	805
Profit attributable to:					
Equity holders of the parent company		865	1,075	102	804
Non-controlling interest		0	0	0	1
Basic earnings per share, EUR	18	0.02	0.03	0.00	0.02
Diluted earnings per share, EUR	18	0.02	0.03	0.00	0.02



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Q4 2013	Q4 2012	2013	2012
Net profit	865	1,075	102	805
Profit attributable to:				
Equity holders of the parent company	865	1,075	102	804
Non-controlling interest	0	0	0	1
Other comprehensive income (loss)				
Currency translation differences	-273	26	-401	38
Total comprehensive income (loss)	592	1,101	-299	843
Comprehensive income (loss) attributable to:				
Equity holders of the parent company	592	1,101	-299	842
Non-controlling interest	0	0	0	1

**CONSOLIDATED CASH FLOW STATEMENT**

	Note	Q4 2013	Q4 2012	2013	2012
Operating activities					
Operating profit		994	1,468	651	1,959
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	13-15	438	397	1,574	1,715
Loss from disposal of PPE		21	10	31	34
Other non-monetary expenses		-8	29	50	94
Changes in working capital:					
Change in trade and other receivables	4	908	793	317	445
Change in inventories	5	746	703	-2,444	-1,096
Change in trade and other payables	9	-642	-1,134	992	-899
Interest paid		-89	-96	-307	-826
Interest received		6	0	6	0
Income tax paid		-6	-27	-18	-89
Net cash generated from operating activities		2,368	2,143	852	1,337
Investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-495	-366	-2,361	-715
Proceeds from disposal of PPE		72	60	80	73
Acquisition of non-controlling interest		0	0	0	-91
Net cash used in investing activities		-423	-306	-2,281	-733
Financing activities					
Received borrowings	8	0	1,000	1,000	2,000
Repayments of borrowings	8	-1,135	-447	-2,280	-1,091
Change in bank overdraft	8	-683	-1,546	1,566	-382
Repayments of finance lease		-12	-29	-39	-131
Proceeds from bonds issue		0	0	0	212
Redemption of share options		1	0	-4	0
Net cash generated from (used in) financing activities		-1,829	-1,022	243	608
Total cash flows		116	815	-1,186	1,212
Cash and cash equivalents at the beginning of the period	3	752	1,260	2,078	863
Effect of exchange gains on cash and cash equivalents		-16	3	-40	3
Cash and cash equivalents at the end of the period	3	852	2,078	852	2,078
Change in cash and cash equivalents		100	818	-1,226	1,215

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to the equity holders of the parent						Non-controlling interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total		
Balance as at 31 Dec 2011	25,056	89	2,494	-17,455	-727	9,457	165	9,622
Profit for the period	0	0	0	804	0	804	1	805
Other comprehensive income	0	0	0	0	38	38	0	38
Total comprehensive income	0	0	0	804	38	842	1	843
Offsetting losses (Note 10)	0	-89	-651	740	0	0	0	0
Decrease of the nominal value of share	-17,897	0	1,182	16,715	0	0	0	0
Equity-settled share-based transactions (Note 15)	0	63	0	0	0	63	0	63
Equity instrument classification to liability (Note 10)	0	0	-250	0	0	-250	0	-250
Acquisition of non-controlling interest (Note 20)	0	0	0	75	0	75	-166	-91
Sale of investment property: revaluation reserve	0	0	-1,592	1,592	0	0	0	0
Balance as at 31 Dec 2012	7,159	63	1,182	2,471	-689	10,186	0	10,186
Profit for the period	0	0	0	102	0	102	0	102
Other comprehensive loss	0	0	0	0	-401	-401	0	-401
Total comprehensive loss	0	0	0	102	-401	-299	0	-299
Equity-settled share-based transactions (Note 15)	0	125	0	0	0	125	0	125
Conversion of bonds to share capital (Note 10)	1,000	496	0	0	0	1,496	0	1,496
Balance as at 31 Dec 2013	8,159	684	1,182	2,573	-1,090	11,508	0	11,508



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 Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo and under franchise agreement Blue Inc retail concepts. 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 twelve months ended 31 December 2013 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's latest consolidated annual financial statements for the year ended 31 December 2012, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2012. New and revised standards and interpretations effective from 1 January 2013 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

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

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

NOTE 2 Financial risks

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

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

Market risk

Foreign exchange risk

Sales in foreign currencies not pegged to euro constitute 44% (2012: 45%). Most important currencies in retail markets are LVL (Latvian lat)ⁱ, 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 mainly 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.

ⁱ On January 2014 the Republic of Latvia joined the Euro area and adopted the Euro as its national currency, replacing Latvian lat.



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 -6.04% (2012: +2.34%), Ukrainian hryvnia -3.63% (2012: +7.60%) and Latvian lat -0.60% (2012: +1.27%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was -3.37% (2012: +7.70%).

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 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 December 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, also from deposits under other receivables and trade receivables.

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 mostly prepayments are required or in some cases payment quarantees through bank are required. For some 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 December 2013 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted 1,069 thousand euros (31 December 2012: 1,023 thousand euros) on a net basis after the allowances.



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

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, bond issues, monitoring the terms of receivables and purchase contracts. Group's current account/overdraft facility is in use for more flexible management of liquid assets, enabling some Group companies to use the Group's resources up to the limit established by the Parent company. The unused limit of Group's overdraft facilities as at 31 December 2013 was 1,000 thousand euros (31 December 2012: 1,567 thousand euros).

Financial liabilities by maturity at 31 December 2013

	Carrying amount	Undiscounted cash flows ¹		Total
		1-12 months	1-5 years	
Loans (Note 8) ²	5,150	3,346	2,158	5,504
Finance lease liabilities (Note 8)	155	42	135	177
Convertible bonds (Note 8)	24	0	24	24
Trade payables (Note 9)	4,966	4,966	0	4,966
Other financial liabilities	2	2	0	2
Total	10,297	8,356	2,317	10,673

Financial liabilities by maturity at 31 December 2012

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

¹For interest bearing borrowings carrying floating interest rate based on Euribor, the last applied spot rate to loans has been used.

²Used overdraft facilities are shown under loans payable 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.

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 interest groups 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 2013 and 2012 as this goal was achieved.

Net gearing ratio

	31 Dec 2013	31 Dec 2012
Interest carrying borrowings (Note 8)	5,305	6,271
Cash and bank (Note 3)	-852	-2,078
Net debt	4,453	4,193
Total equity	11,508	10,186
Total capital to net debt ratio	39%	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 December 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.

**NOTE 3 Cash and cash equivalents**

	31 Dec 2013	31 Dec 2012
Cash in hand	295	415
Cash at bank and overnight deposits	557	1,663
Total	852	2,078

Cash and cash equivalents by currency

	31 Dec 2013	31 Dec 2012
RUB (Russian rouble)	241	510
UAH (Ukrainian hryvnia)	213	144
EUR (euro)	173	1,198
LTL (Lithuanian lit)	126	103
LVL (Latvian lat)	99	123
Total	852	2,078

NOTE 4 Trade and other receivables

Short-term trade and other receivables	31 Dec 2013	31 Dec 2012
Trade receivables, net	755	680
Other prepaid expenses	617	763
Tax prepayments and tax reclaims, thereof	79	344
Value added tax	41	233
Prepaid income tax	13	15
Other taxes	25	96
Other current receivables	63	49
Total	1,514	1,836

Long-term assets

Non-current lease prepayments	549	461
Other long-term receivables	464	627
Total	1,013	1,088

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

Trade receivables

	31 Dec 2013	31 Dec 2012
Trade receivables, gross	755	681
Allowance for impairment of trade receivables	0	-1
Trade receivables, net	755	680

Trade receivables (net) by due date

	31 Dec 2013	31 Dec 2012
Not due	621	608
Up to 1 month past due	59	36
1-3 months past due	73	19
3-6 months past due	2	17
Total	755	680

**Trade receivables (net) in denominated currency**

	31 Dec 2013	31 Dec 2012
EUR (euro)	580	425
RUB (Russian rouble)	87	65
LVL (Latvian lat)	45	140
LTL (Lithuanian lit)	24	20
UAH (Ukrainian hryvnia)	19	30
Total	755	680

NOTE 5 Inventories

	31 Dec 2013	31 Dec 2012
Fabrics and accessories	2,192	2,281
Work-in-progress	72	69
Finished goods and goods purchased for resale	11,306	9,330
Allowance for impairment of finished goods and goods purchased for resale	-342	-460
Prepayments to suppliers	523	251
Total	13,751	11,471

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Construc- tion in progress	Total
31 December 2011					
Acquisition cost	9,231	5,633	6,691	0	21,555
Accumulated depreciation	-3,360	-4,655	-5,509	0	-13,524
Net book amount	5,871	978	1,182	0	8,031
Additions	326	126	253	4	709
Reclassifications from inventories	0	0	18	0	18
Disposals	-5,031*	-39	-6	0	-5,076
Reclassifications to inventory	0	0	-7	0	-7
Reclassification	-21	4	17	0	0
Depreciation	-469	-384	-578	0	-1,431
Currency translation differences	-4	9	8	-1	12
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	777	399	954	0	2,130
Reclassifications from inventories	0	0	11	0	11
Disposals	-12	-2	-5	0	-19
Reclassifications to inventories	0	0	-7	0	-7
Reclassification	0	-25	28	-3	0
Depreciation	-482	-324	-475	0	-1,281
Currency translation differences	-29	-17	-21	0	-67
31 December 2013					
Acquisition cost	4,318	5,410	7,041	0	16,769
Accumulated depreciation	-3,392	-4,685	-5,669	0	-13,746
Net book amount	926	725	1,372	0	3,023

*On 31 July 2012 real-estate in Veerenni 24 was sold, more details about the transaction can be found in the interim report of the third quarter of 2012.

**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
Additions	132*	600*	0	0	732
Disposals	-2	0	-10	0	-12
Amortisation	-265	-33	0	0	-298
Currency translation differences	2	0	0	61	63
31 December 2012					
Acquisition cost	2,296	1,243	0	2,279	5,818
Accumulated depreciation	-1,464	-204	0	0	-1,668
Net book amount	832	1,039	0	2,279	4,150
Additions	67	0	0	0	67
Disposals	-12	0	0	0	-12
Amortisation	-267	-45	0	0	-312
Currency translation differences	-4	0	0	-196	-200
31 December 2013					
Acquisition cost	2,191	1,243	0	2,083	5,517
Accumulated depreciation	-1,575	-249	0	0	-1,824
Net book amount	616	994	0	2,083	3,693

* Acquisition includes assets acquired in the Bastion business combination in the amount of 709 thousand euros (Note 21).

NOTE 8 Borrowings

	31 Dec 2013	31 Dec 2012
Current borrowings		
Current portion of non-current bank loans	2,341	1,570
Current bank loans	652	0
Current portion of finance lease liabilities	39	23
Other current loans (Note 19)	126	0
Share options (Note 19)	0	5
Total	3,158	1,598
Non-current borrowings		
Non-current bank loans	2,031	3,165
Non-current finance lease liabilities	116	13
Convertible bonds, share options (Note 19)	24	1,524
Total	2,171	4,702
Total borrowings	5,329	6,300

During the reporting period, the Group made loan repayments in the amount of 2,280 thousand euros (2012: 14,091 thousand eurosⁱⁱ). Interest expense of all interest carrying borrowings of the reporting period amounted to 339 thousand euros, including 48 thousand euros interest expense from convertible bonds (2012: 877 thousand euros, including 72 thousand euros interest expense from convertible bonds). Group's overdraft facilities with the banks were used in the amount of 1,566 thousand euros as at 31 December 2013 (31 December 2012: 0 thousand euros).

ⁱⁱ The amount includes 13 million euros repayments that did not have a direct impact on cash flow.



Changes in 2013

In the second quarter the Group received loan in the amount of 1,000 thousand euros under the agreement annex signed in 2012.

In the third and fourth quarter the Group signed annexes under an existing loan agreement, which increased overdraft limit for one quarter in the amount of 1,500 thousand euros.

In December the Group restructured another existing loan agreement: a contract was terminated and contractual obligations were paid. At the same time in December a new overdraft contract was signed.

In December a loan agreement with a related party was signed, with existing obligations converted into loan in the amount of 126 thousand euros with 7% interest rate (Note 19).

In August H-bonds were converted into shares. See more in Note 10.

Changes in 2012

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

In 2012 an annex to a previous loan agreement and received a loan in the amount of 2,000 thousand euros.

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

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month bank's base rate)	5,024	base rate+4,36%
Borrowings at fixed interest rate	126	7.00%
Total	5,150	

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 Dec 2013	31 Dec 2012
Current liabilities		
Trade payables	4,966	4,162
Tax liabilities, thereof	1,352	1,218
Personal income tax	228	171
Social security taxes and unemployment insurance premium	539	454
Value added tax	541	565
Corporate income tax liability	17	11
Other taxes	27	17
Payables to employees ¹	1,088	1,234
Other accrued expenses	2	91
Customer prepayments	20	24
Other current payables	75	276
Total	7,503	7,005
Non-current liabilities		
Other liabilities	0	25

¹Payables to employees consist of accrued wages, salaries and vacation reserve. Information about the liabilities to related parties is in Note 19.

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

	31 Dec 2013	31 Dec 2012
EUR (euro)	3,526	2,822
USD (US dollar)	1,189	1,121
LVL (Latvian lat)	71	98
LTL (Lithuanian lit)	71	72
GBP (British pound)	66	15
UAH (Ukrainian hryvnia)	24	45
RUB (Russian rouble)	21	80
Total	4,968	4,253

NOTE 10 Equity**Share capital and reserves**

	31 Dec 2013	31 Dec 2012
Share capital	8,159	7,159
Number of shares (pcs)	40,794,850	35,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182

As at 30 December 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 December 2013 and 31 December 2012 share capital consists of ordinary shares, that are listed on the Tallinn Stock Exchange.

Changes in 2013

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

In August 2013 the bonds were converted into shares. As the result of the conversion – the borrowings, that had become current borrowings at the moment of request, decreased by 1,500 thousand euros. Equity increased in the same amount: share capital by 1,000 thousand euros and share premium by 500 thousand euros. After the registration of new shares AS Baltika has 40,795 thousand ordinary shares with the nominal value of 0.2 euros per share.

	Number of shares
Number of shares as at 31 Dec 2012	35,794,850
Conversion of H-bonds into shares	5,000,000
Number of shares as at 31 Dec 2013	40,794,850

Changes in 2012

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

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

In May 2012 an agreement with a related party was signed, according to which the equity instrument was offset with convertible bonds.

Convertible bonds

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

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 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.

Shareholders as at 31 December 2013

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	6,505,350	15.95%
3. BMIG OÜ*	4,750,033	11.64%
4. SKANDINAVISKA ENSKILDA BANKEN S.A.	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,645,000	4.03%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	743,531	1.82%
Maire Milder	316,083	0.77%
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	2.46%
7. Other shareholders	9,807,712	24.05%
Total	40,794,850	100.00%

Shareholders as at 31 December 2012

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



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

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

NOTE 11 Segments

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

Parent company's Management Board assesses the performance from operations area perspective i.e. the performance of retail, wholesale and real estate management (in 2012) 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

	Retail, Baltic region	Retail, Eastern Europe	Whole- sale ¹	Real estate manage- ment	Total
4 Quarter 2013					
Revenue (from external customers)	11,817	3,938	939	0	16,694
Segment profit ²	3,298	96	259	0	3,653
Incl. depreciation and amortisation	-160	-83	-2	0	-245
4 Quarter 2012					
Revenue (from external customers)	11,066	4,462	658	2	16,188
Segment profit ²	3,446	319	125	2	3,892
Incl. depreciation and amortisation	-142	-138	0	0	-280
2013 and as at 31 Dec 2013					
Revenue (from external customers)	39,152	15,440	3,761	0	58,353
Segment profit (loss) ²	8,589	-492	1,000	0	9,097
Incl. depreciation and amortisation	-620	-392	-7	0	-1,019
Inventories of segments	4,620	2,197	0	0	6,817
2012 and as at 31 Dec 2012					
Revenue (from external customers)	36,097	16,568	3,264	403	56,332
Segment profit ²	8,307	86	932	374	9,699
Incl. depreciation and amortisation	-721	-441	0	0	-1,162
Inventories of segments	3,893	2,087	0	0	5,980

¹The wholesale segment includes the sale of goods, materials and sewing services and the sales from e-commerce.

²The segment profit is the segment operating profit, excluding other operating expenses and income.

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

Reconciliation of segment profit to consolidated operating profit

	Q4 2013	Q4 2012	2013	2012
Total segment profit	3,653	3,892	9,097	9,699
Unallocated expenses ¹ :				
Costs of goods sold and distribution costs	-1,893	-1,834	-5,328	-5,175
Administrative and general expenses	-741	-734	-2,869	-2,722
Other operating income (expenses), net	-25	144	-249	157
Operating profit	994	1,468	651	1,959

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

Reconciliation of segment inventories to consolidated inventories

	31 Dec 2013	31 Dec 2012
Total inventories of segments	6,817	5,980
Inventories in Parent company and production company	6,934	5,491
Inventories on statement of financial position	13,751	11,471

**NOTE 12 Revenue**

	Q4 2013	Q4 2012	2013	2012
Sale of goods	16,667	16,116	58,227	55,683
Lease revenue	0	2	0	403
Other	27	70	126	246
Total	16,694	16,188	58,353	56,332

Sales by geographical (client location) areas

	Q4 2013	Q4 2012	2013	2012
Estonia	5,859	5,318	19,576	18,025
Lithuania	3,319	3,378	11,191	10,946
Latvia	3,111	2,748	10,159	9,194
Russia	2,274	2,723	9,494	10,174
Ukraine	1,802	1,854	6,537	6,819
Finland	155	97	792	642
Germany	80	48	356	454
Other countries	94	22	248	78
Total	16,694	16,188	58,353	56,332

NOTE 13 Cost of goods sold

	Q4 2013	Q4 2012	2013	2012
Materials and supplies	6,108	5,713	22,794	21,597
Payroll costs in production	843	715	3,158	2,765
Operating lease expenses	168	159	667	633
Other production costs	126	114	450	408
Depreciation of assets used in production (Note 6,7)	47	48	187	202
Change in allowance for inventories	342	360	-118	10
Total	7,634	7,109	27,138	25,615

NOTE 14 Distribution costs

	Q4 2013	Q4 2012	2013	2012
Payroll costs	2,856	2,961	10,756	10,136
Operating lease expenses	2,647	2,573	10,491	9,996
Advertising expenses	399	352	1,432	1,262
Depreciation and amortisation (Note 6,7)	362	309	1,246	1,285
Fuel, heating and electricity costs	179	164	711	655
Fees for card payments	130	122	446	407
Municipal services and security expenses	116	54	367	254
Travel expenses	67	55	269	220
Information technology expenses	57	61	210	202
Consultation and management fees	68	4	173	211
Communication expenses	40	38	152	143
Other sales expenses ¹	379	328	1,193	1,422
Total	7,300	7,021	27,446	26,193

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

**NOTE 15 Administrative and general expenses**

	Q4 2013	Q4 2012	2013	2012
Payroll costs ¹	322	354	1,283	1,273
Operating lease expenses	110	102	440	183
Information technology expenses	69	55	258	235
Bank fees	59	52	227	237
Depreciation and amortisation (Note 6,7)	29	40	141	228
Fuel, heating and electricity expenses	26	26	102	86
Management, juridical-, auditor's and other consulting fees	40	50	113	261
Sponsorship, gifts, donations	26	5	56	68
Other administrative expenses ²	60	50	249	151
Total	741	734	2,869	2,722

¹Payroll costs include payroll expenses for employee services received under the share options programme in the amount of 125 thousand euros (2012: 63 thousand euros).

²Other administrative expenses consist of insurance and office, communication, travel, training, municipal and security expenses and other services.

NOTE 16 Other operating income and expenses

	Q4 2013	Q4 2012	2013	2012
Gain (loss) from sale, impairment of PPE, non-current assets and investment property	-13	-11	-20	-35
Realization of impaired assets in previous periods	0	0	0	33
Other operating income	101	285	137	292
Foreign exchange loss	-101	-108	-331	-76
Fines, penalties and tax interest	-6	-20	-15	-25
Other operating expenses	-6	-2	-20	-32
Total	-25	144	-249	157

NOTE 17 Finance income and costs

	Q4 2013	Q4 2012	2013	2012
Interest income	6	0	6	0
Interest costs	-80	-93	-339	-877
Foreign exchange income (losses)	142	-9	0	61
Other finance costs (net)	-38	-72	-49	-87
Total	30	-174	-382	-903

NOTE 18 Earnings per share

Basic earnings per share		Q4 2013	Q4 2012	2013	2012
Weighted average number of shares (thousand)	pcs	40,795	35,795	38,644	35,795
Net profit attributable to equity holders of the parent		865	1,075	102	804
Basic earnings per share	EUR	0.02	0.03	0.00	0.02
Diluted earnings per share		Q4 2013	Q4 2012	2013	2012
Weighted average number of shares (thousand)	pcs	40,795	35,795	38,644	35,795
Adjustments:					
- weighted average of convertible bonds that are dilutive (thousand)	pcs	230	5,100	701	3,210
Total weighted average number of shares and convertible bonds	pcs	41,025	40,895	39,345	39,005
Net profit attributable to equity holders of the parent		865	1,075	102	804
Interest expense (convertible bonds)		0	28	0	72
Adjusted net profit attributable to equity holders of the parent		865	1,103	102	876
Diluted earnings per share	EUR	0.02	0.03	0.00	0.02

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2013 was 0.74 euros (2012: 0.44 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 Council¹;
- ☒ 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.

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

Transactions with related parties

	Q4 2013 Purchases	Q4 2012 Purchases	2013 Purchases	2012 Purchases	2012 Sales
Goods	0	0	0	1	8
Services	58	123	238	303	0
Total	58	123	238	304	8

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

Balances with related parties

	31 Dec 2013	31 Dec 2012
Other current receivables (Note 4)	0	1
Receivables from related parties total	0	1

	31 Dec 2013	31 Dec 2012
Other current loans and interests, penalties (Note 8, 9)	145	1,592
Trade payables (Note 12)	50	18
Payables to related parties total	195	1,610

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

	Q4 2013	Q4 2012	2013	2012
Salaries of the members of the Management Board	85	160	338	345
Remuneration of the members of the Supervisory Council	4	5	18	22
Total	89	165	356	367

As at 31 December 2013 and 31 December 2012 there were five Management Board and five Supervisory Council Members. In the reporting period no changes took place composition of Management Board or Supervisory Council.

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



NOTE 20 Subsidiaries

Changes in 2013

In the third quarter of 2013 the structure of Group entities in Russian market was changed to minimize administrative burden. As at 31 December 2013 subsidiary OOO Kompania „Baltman RUS“ does not belong to Group companies. Transaction has no effect to Group assets or results.

Also a change in the Ukrainian market took place in the third quarter. A new company “Baltika Retail Ukraina Ltd” was formed by splitting the already existing company in that market. As at 31 December 2013 subsidiary Baltika Ukraina Ltd does not belong to Group companies. There is no effect to Group assets or results.

Changes in 2012

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

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

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

NOTE 21 Business combinations

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

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

Detailed information about the business combination is available in the 2012 Annual report.



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 December 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 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 December 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 December 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 Board of KJK Invest Oy,

Member of the Board of Aurejärvi Varainhoito Oy,

Member of the Board of UAB Malsena Plius,

Member of the Board of Bostads AB Blåklinten Oy,

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 Premia Tallinna Külkhoone AS,

Member of the Supervisory Council of Managetrade OÜ,

Member of the Supervisory Council of Toode AS,

Vice-chairman of the Board of AAS BAN,

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 Management Board of KJK Fund II SICAV-SIF,

Chairman of the Supervisory Council of JSC Rigas Dzirnāvnieks,

Chairman of the Board of Directors, KJK Management SA,

Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 December 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 December 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 December 2013: 743,531 shares¹



MAIGI PÄRNIK-PERNIK

Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika shares 31 December 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 December 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 December 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 December 2013: 0

¹The 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").