AS BALTIKA

Consolidated interim report for the first quarter of 2014

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 2014 – 31 December 2014
Reporting period	1 January 2014 – 31 March 2014

BALTMAN monton MOSAIC IvoNikkolo BASTION

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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 March 2014 the Group employed 1,334 people (31 December 2013: 1,345).

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

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding at 31 March 2014	Holding at 31 Dec 2013
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 Retail Ukraina Ltd[1, 2]	Ukraine	Retail	100%	100%
OOO Kompania „Olivia“[1]	Russia	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

[1]Interest through a subsidiary.
[2]For additional information about Ukrainian subsidiary see Notes 20, 21.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, FIRST QUARTER 2014

Baltika's first-quarter net loss from continuing operations amounted to 910 thousand euros compared with a loss of 439 thousand euros a year ago. The Group considers the 10% retail sales growth in Baltics as a good result, but the Group's overall result from continuing operations was undermined by a 23% sales decrease in the Russian market.

Due to the complicated situation in Ukraine and Russia, reducing Eastern European risks became a priority. The Group considered different scenarios for Ukraine and decided to change its model of operation. Management began looking for a partner with knowledge about the Ukrainian market to whom the current Ukrainian retail business could be sold and with whom a long-term franchise agreement could be signed for sustaining a presence in the region. In connection with the intention of disposing of the entity, the assets of the Ukrainian sales organisation, Baltika Retail Ukraina, were reclassified to non-current assets held for sale.

At 31 March 2013, the assets of Baltika Retail Ukraina totalled 1,095 thousand euros, consisting of inventories, lease prepayments and non-current assets, and liabilities approximately in the same value, consisting mainly of trade payable to Baltika for merchandise. Because of the unstable situation in the region, the Group wrote the subsidiary's assets down by 1,095 thousand euros.

In connection with Baltika's exit from the Ukrainian retail business, which represented a major line of business of the Group, the first-quarter results of the Ukrainian entity are presented as discontinued operation. The results of the discontinued operation are reported separately from continuing operations to allow better assessment of the performance of continuing operations. For comparability, the figures for 2013 have been adjusted accordingly.

The first-quarter loss of the discontinued operation amounted to 1,572 thousand euros, including the loss of 1,095 thousand euros resulting from the write-down of its assets. Thus, the Group's total first-quarter loss amounted to 2,482 thousand euros.

The Group's first-quarter revenue grew by 496 thousand euros or 4% year over year. The largest sales growth, 67%, occurred in e-commerce, which is consistent with the 2014 target of placing greater focus on the development of other sales channels. Wholesale revenue grew by 15% and retail revenue by 3%.

First-quarter retail sales growth in the Baltics (10%) met expectations. The region's growth driver was Latvia (16%), followed by Estonia (9%) and Lithuania (8%). The Baltic region posted the past five years' best first-quarter results, including the strongest revenue, the highest sales efficiency and the largest gross profit per square metre.

While performance in the Baltics can be considered satisfactory, the Group's overall performance was weakened by its performance in Eastern Europe. First-quarter retail sales in the Russian market dropped by 23%. Uncertainties about the future of the Russian economy, the weakening of the rouble and inflation have lessened consumer confidence and impeded recovery of the fashion industry.

Baltika's first-quarter gross margin was 48.6%, 3.5 percentage points down from a year ago. The slide in the margin is partly attributable to weak sales caused by the problems prevailing in the Russian market, which have been magnified by the weakening of the rouble against the euro. The gross margin for the Russian market dropped by 5.5 percentage point year over year. In addition in the first couple of months, the margin was also affected by weaker sales during the autumn and winter season, which increased inventories that had to be disposed of at steeper discounts. In the Baltic region, prices remain under strong pressure due to heightening competition and growth in retail space.

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

- 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.

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- In February the spring-summer collections of Monton, Bastion, Mosaic, Ivo Nikkolo and Baltman were presented in Tallinn at Moelava. UK men's fashion brand Blue Inc London, who is represented by Baltika in Baltics, also showed its new collection. Spring mood was completed with performance of singer Mari Pokinen. Colourful fashion show was broadcasted live in Delfi TV.

- Baltika signed a franchise agreement on 13th of March with Spanish enterprise Mirworld Organization, who will open the first Monton brand store in Tenerife, in August 2014. Spain is the second country that Baltika enters with its brand as franchisor. The first two Monton franchise stores were opened in Belarus last year.

- Council decided, on 26th of March 2014, to propose to the Annual General Meeting of shareholders, to issue convertible bonds with bondholder option in the total amount of 3 million euros. Proposal is for issuance of 600 convertible bonds with issuance price of 5,000 euros. The subscription for the bonds will take place from 14th to 28th of July 2014. The bond will bear 6.5% interest p.a. and each bond will give its owner the right to subscribe 10,000 AS Baltika shares of the company with subscription price 0.5 euros.

- The Annual General Meeting of AS Baltika, held on 28 April 2014, decided to approve the Annual report for 2013 and profit allocation to retained earnings. Meeting elected the auditors for auditing the financial years 2014-2016 to be AS PricewaterhouseCoopers. Annual General Meeting decided to conditionally increase the share capital of the Company and to issue convertible bonds according to the Terms and Conditions of J-Bonds presented by Council.

- On 29 April 2014 Baltika signed an agreement by which Baltika Retail Ukraina Ltd (BRU) was sold to OÜ Ellipse Group. The owner of the acquirer is Boriss Loifenfeld, the Baltika's adviser in Eastern European matters. BRU will continue cooperation with Baltika as franchise partner, contract was signed in 29 April for next five years. BRU's assets and liabilities were sold for a price close to carrying amount and as a result of the sales transaction Baltika will recognise a receivable from BRU in amount of 1.25 million euros, for what the parties have agreed a five-year settlement schedule. The receivable is secured with BRU's commercial assets. Collectability of this receivable depends on the development of the Ukrainian economy and improvements in the entity's operating results. Baltika will keep the impairment made in the first quarter as alloeance reserve for BRU receivable.

- In January two shops were closed – Mosaic shop in Piramida shopping centre in Kiev, Ukraine and Monton in Planeta shopping centre in Krasnojarsk, Russia. Mosaic in Tsentraal shopping centre in Jõhvi, Estonia was moved to the better location and to bigger area and has received positive feedback from customers. In March three new stores were opened in Russia – two Mosaic shop-in-shop stores at partners' multibrand stores in Mega shopping centres in Krasnodar and Jekaterinburg and Outlet store in Peterburg, in Varshavsky Express centre. In Tallinn, Estonia two shops were closed – temporary Outlet store in Ülemiste centre and Monton store in Viru Keskus shopping centre.

REVENUE

Management report presents the results of continuing operations unless indicated otherwise. For comparability, the figures for 2013 have been adjusted accordingly.

Baltika's first quarter sales increased by 4%. Sales of clothing in wholesale channel showed 15% growth, e-channel 67% growth and retail growth was 3%. Retail sales proportion from sales was 91%, from which 83% is retail sales in Baltic countries.

Revenue by activity

Continued operations

EUR thousand	Q1 2014	Q1 2013	+/-
Retail	11,109	10,778	3%
Wholesale	949	828	15%
E-com sales	77	46	67%
Other	36	23	57%
Total	**12,171**	**11,675**	**4%**

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Revenue including discontinued operations

EUR thousand	Q1 2014	Q1 2013	+/-
Retail	12,385	12,289	1%
Wholesale	949	828	15%
E-com sales	77	46	67%
Other	36	23	57%
Total	**13,447**	**13,186**	**2%**

Stores and sales area

Group had 125 stores in the end of the quarter, among which 2 franchise stores in Belarus and 17 stores in Ukraine, which belong to discontinued operations. The number of stores of continuing operations did not change with the quarter, but the average operating area in the quarter has increased by 7%. During renovations Mosaic store in Akropolis shopping centre in Vilnius, Lithuania got uplift to new concept and 3 other stores in Estonia, Latvia and Lithuania got a fresh look. First Outlet store was opened in Russia in St. Petersburg and two new shop in shop stores – one in Krasnodar and the other in Jekaterinsburg. New location and concept was given to store in Jõhvi, Estonia which operated under Mosaic brand and now since January sales also Monton products. Four stores were closed in the three months.

Stores by market

	31 March 2014	31 March 2013	Average area change*
Estonia	37	35	9%
Lithuania	28	27	3%
Latvia	21	16	15%
Russia	20	18	2%
Ukraine[1]	17	16	10%
Belarus[2]	2	0	-
Total stores	**125**	**112**	
Total sales area, sqm	**23,735**	**22,193**	**7%**

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

[1]Ukrainian shops are part of the discontinued operations
[2]Monton franchise shops with total sales area of 380 sqm

Retail

First quarter retail revenue increased by 3% compared to that of same period in previous year, i.e. 331 thousand euros and the total amount was 11,109 thousand euros. This includes the Baltic countries which sales grew by 874 thousand euros (+10%) and Russia with 543 thousand euro decrease (-23%).

The sales revenue was the largest over last five years in the Baltic countries and at the same time the quarterly growth has steadily been over 10% in the last 4 years. Sales growth was led by Latvia with 16%, followed by Estonia with 9% and Lithuania with 8%. In Baltic countries it was the discount rate that gave trouble compared with good sales growth, which signified gross margin decrease by 1 percentage point compared to that of same period in prior year. Both increase in competition and growth of sales area put pressure on prices in Baltic countries. Additional impact to decrease of margin came from additional discounts due to weaker autumn-winter season sales in first months of the quarter resulting in larger stock level, which were sold with larger discounts.

Group total results were negatively impacted by trends of Eastern-Europe. Russian results have been negatively impacted by exchange rate and the macroeconomic figures and consumer expectations not coming true has had its impact.

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Retail sales by market

EUR thousands	Q1 2014	Q1 2013	+/-	Share
Estonia	4,202	3,863	9%	38%
Lithuania	2,663	2,464	8%	24%
Latvia	2,408	2,072	16%	22%
Russia	1,836	2,379	-23%	17%
Total	**11,109**	**10,778**	**3%**	**100%**
Ukraine*	1,276	1,511	-16%	-

*Discontinued operations

Average operating area in the Baltic countries in the first quarter was 8% larger than that of previous year same period. Sales efficiency increased by 2% reaching the highest level of sales per square metre in previous five years. The sales efficiency in Baltic countries was most impacted by the additional new stores, which volume has not reached full level as normal during the initial phase. The negative impact from Russia resulted in three month total sales efficiency decrease by 3%.

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

	Q1 2014	Q1 2013	+/-
Estonia	204	204	0%
Lithuania	160	152	5%
Latvia	211	210	0%
Russia	152	202	-25%
Total	**183**	**189**	**-3%**
Ukraine*	128	166	-23%

*Discontinued operations

In local currency the sales efficiency growth in Russia was -10% in the first quarter.

Brands

The largest brand based on retail sales continues to be Monton (46%), followed by Mosaic (29%). Monton's growth was hindered by substantial sales decline in Russia, which has been the largest distributor for Monton so far. In Baltic countries the sales of Monton grew by 13% compared to first quarter of last year. Sales of Mosaic remained on the same level as previous year.

Retail revenue by brand

Continued operations

EUR thousands	Q1 2014	Q1 2013	+/-	Share
Monton	5,143	5,084	1%	46%
Mosaic	3,200	3,351	-5%	29%
Baltman	1,152	1,022	13%	10%
Ivo Nikkolo	1,089	925	18%	10%
Bastion	393	334	18%	4%
Blue Inc	107	0	0%	1%
Other	25	62	-60%	0%
Total	**11,109**	**10,778**	**3%**	**100%**

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Revenue including discontinued operations

EUR thousands	Q1 2014	Q1 2013	+/-	Share
Monton	6,026	5,990	1%	49%
Mosaic	3,582	3,907	-8%	29%
Baltman	1,153	1,027	12%	9%
Ivo Nikkolo	1,090	948	15%	9%
Bastion	393	334	18%	3%
Blue Inc	107	0	0%	1%
Other	34	83	-59%	0%
Total	**12,385**	**12,289**	**1%**	**100%**

Largest growth was showed by Broup's premium brands in the first quarter – Bastion and Ivo Nikkolo, which sales' comes from Baltic market.

Wholesale and e-com

Sales result of wholesale was 949 thousand euros in 2014 first quarter, an increase of 15% compared to previous year. Sales result of e-com grew 67% and was in total 77 thousand euros.

Wholesale growth is mainly due to Monton sales to Belarusian franchise partner, who opened its first stores in last year October in Minsk and sales of Mosaic to new wholesale client operating retail chain in Russia.

OPERATING EXPENSES AND NET PROFIT

Baltika's first-quarter gross margin was 48.6%, that is 3.5 percentage points down from a year ago. The slide in the margin is partly attributable to weak sales caused by the problems prevailing in the Russian market, which have been magnified by the weakening of the rouble against the euro. The gross margin for the Russian market dropped by 5.5 percentage points year over year. In the Baltic region, prices remain under strong pressure due to heightening competition and growth in retail space. Total quarter gross profit amounted to 5,917 thousand euros, decreasing 3%.

The average sales area increased by 7% in the first quarter compared to same period in last year. Devaluation of rouble had impact to expenses – in Russia distribution expenses decreased by 5% (in local currency +4%), which resulted to 2% growth of operating expenses in retail markets. Distribution expenses in Group totalled to 5,954 thousand euros, increasing 4% compared to same period in last year.

In the first quarter general and administrative expense was 717 thousand euros, decreasing by 18 thousand euros i.e. 2%.

Operating expense was 6,671 thousand euros in the first quarter and the ratio to revenue was 55% which is the same level as a year before.

Other net operating expense was 72 thousand euros in the first quarter (I quarter 2013: net revenue 2 thousand euros). Operating loss was 826 thousand euros, which included foreign exchange loss of 67 thousand euros. Foreign exchange profit recorded in operating profit was 7 thousand euros in last year.

Net financial expense in the first quarter was 79 thousand euros, which is the same level as year before (I quarter 2013: 76 thousand euros).

The first quarter resulted to net loss of 910 thousand euros, this is 471 thousand euros bigger loss, than in same period in last year. Due to industry seasonality the Baltika's weakest – the first – quarter was magnified by the complicated economical and political situation in Eastern Europe, which caused the sales decrease in Russia and dropped the gross margin.

FINANCIAL POSITION

As at 31 March 2014, Group inventories totalled 12,410 thousand euros. Inventory has increased compared to last year end by 1,341 thousand euros. Considerable part of decreased inventories is related to reclassification of Ukrainian assets into non-current assets held for sale. Compared to year-over-year the inventories increased by 955 thousand euros i.e. 8%. Increase of inventory is mainly due to larger number of stores. The first quarter average sales area was 7% bigger, than in same period last year.

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Property, plant and equipment at cost in-creased by 327 thousand euros, depreciation was 281 thousand euros. Fixed assets residual value decreased by 214 thousand euros compared to last year-end. 311 thousand euros were invested into retail network.

The first quarter cash-flow from operating activities was -757 thousand euros (I quarter 2013: -1,049 thousand euros). Investment program continued and 399 thousand euros were contributed to investment activities. Bank loan repayments was made in amount of 274, at the same time overdraft used limit increased by 1,090 thousand euros. The first quarter net cash outflow was 352 thousand euros (I quarter 2013: -1,274 thousand euros).

Due to higher needs of financing in the first quarter caused by production cycle and negative cash flow from operating activities, as at 31 March 2014 the Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 5,652 thousand euros, which has increased by 1,199 thousand euros compared to the end of last year. The net debt to equity ratio was 64% as at 31 March 2014 (31.12.2013: 39%). Compared to the figure at same point of seasonal cycle as at 31 March 2013 when it was 65%, the ratio has improved. The ratio was impacted by discontinued operations related to sale of Ukrainian company.

PEOPLE

As at 31 March 2014, Baltika Group employed a total of 1,334 people that is 11 people less than as at 31 December 2013 (1,345): 737 (31.12.2013: 752) in the retail system, 400 (31.12.2013: 400) in manufacturing and 197 (31.12.2013: 193) at the head office and logistics centre. The 2014 first quarter average number of staff was 1,336 (I quarter 2013: 1,297). The personnel statistics includes also the staff in Ukrainian (discontinued operations) retail system, where at the end of quarter was 126 people (31.12.2013: 130)

Baltika Group employees remuneration expense of continued operations in the first quarter amounted to 2,681 thousand euros (I quarter 2013: 2,555 thousand euros). The accrued remuneration with taxes, of the members of the Supervisory Council and Management Board totalled 92 thousand euros (I quarter 2013: 93 thousand euros).

Pille Lauring, former employee of Baltika, joined the Monton brand team and starting from March is working as Head of Collection in womenswear collection team.

Council decided at the meeting held on 26th of March 2014, to extend the term of office of member of the management board Maigi Pärnik-Pernik for the next three years.

KEY FIGURES OF THE GROUP (I QUARTER 2014)

Sales activity key figures	**3M and 31 March 2014**[1]	**3M and 31 March 2013**[2]	**3M and 31 March 2013**	**3M and 31 March 2012**	**3M and 31 March 2011**
Revenue (EUR thousand)	12,171	11,675	13,186	12,643	11,771
Retail sales (EUR thousand)	11,109	10,778	12,289	11,531	10,755
Share of retail sales in revenue	91%	92%	93%	91%	91%
Share of exports in revenue	63%	64%	69%	70%	73%
Number of stores	108	96	112	108	116
Sales area at the end of period (sqm)	20,400	19,148	22,193	21,807	23,961
Number of employees (end of period)	1,208	1,177	1,299	1,316	1,418
Gross margin	48.6%	52.1%	51.3%	51.1%	50.0%
EBITDA (EUR thousand)	-513	-17	-154	-215	-1,431
EBITDA margin	-4.2%	-0.1%	-1.2%	-1.7%	-12.2%
Operating margin	-6.8%	-3.1%	-4.0%	-6.2%	-17.8%
EBT margin	-7.4%	-3.8%	-4.6%	-8.1%	-20.1%
Net margin	-7.5%	-3.8%	-4.6%	-8.2%	-20.1%
Inventory turnover	2.00	2.13	2.26	2.89	2.54

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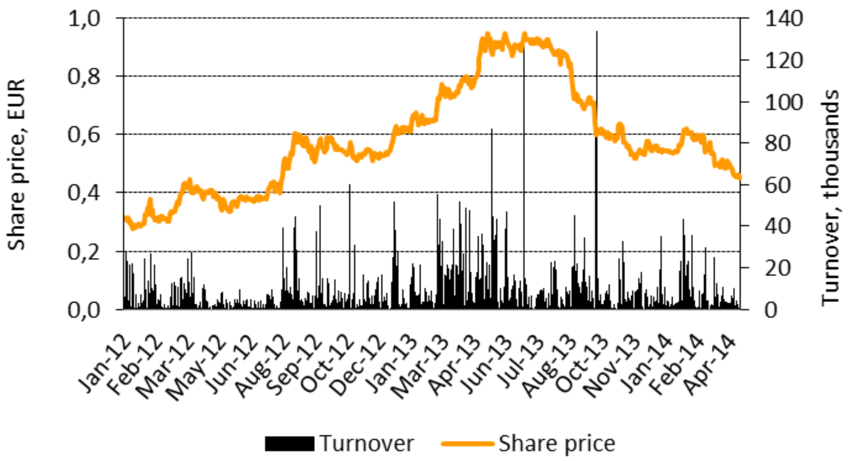
Other ratios[3]					
Current ratio	1.5	1.8	1.8	1.2	1.4
Net gearing ratio	64.0%	65.1%	65.1%	209.8%	190.3%
Return on equity	-23.1%	-6.5%	-6.5%	-57.2%	-51.4%
Return on assets	-10.2%	-2.3%	-2.3%	-15.4%	-15.4%

[1]In connection with Baltika's exit from the Ukrainian retail business, the first-quarter sales activity key figures presents only results of continued operations.
[2]For comparability, the figures for 2013 have been adjusted accordingly.
[3]Other ratios includes impact of continued and discontinued operations.

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
30 April 2014

Maigi Pärnik-Pernik
Member of the Management Board
30 April 2014

Maire Milder
Member of the Management Board
30 April 2014

Andrew J. D. Paterson
Member of the Management Board
30 April 2014

Kati Kusmin
Member of the Management Board
30 April 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 first quarter of 2014 as presented on pages 12-31.

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
30 April 2014

Maigi Pärnik-Pernik
Member of the Management Board
30 April 2014

Maire Milder
Member of the Management Board
30 April 2014

Andrew J. D. Paterson
Member of the Management Board
30 April 2014

Kati Kusmin
Member of the Management Board
30 April 2014

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 March 2014	31 Dec 2013
ASSETS			
Current assets			
Cash and cash equivalents	3	458	852
Trade and other receivables	4	1,342	1,514
Inventories	5	12,410	13,751
Total current assets		**14,210**	**16,117**
Non-current assets			
Deferred income tax asset		494	494
Other non-current assets	4	843	1,013
Property, plant and equipment	6	2,809	3,023
Intangible assets	7	3,598	3,693
Total non-current assets		**7,744**	**8,223**
TOTAL ASSETS		**21,954**	**24,340**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	2,427	3,158
Trade and other payables	9	6,989	7,503
Total current liabilities		**9,416**	**10,661**
Non-current liabilities			
Borrowings	8	3,707	2,171
Total non-current liabilities		**3,707**	**2,171**
TOTAL LIABILITIES		**13,123**	**12,832**
EQUITY			
Share capital at par value	10	8,159	8,159
Share premium		715	684
Reserves	10	1,182	1,182
Retained earnings		2,573	2,471
Net profit (loss) for the period		-2,482	102
Currency translation differences		-1,316	-1,090
TOTAL EQUITY		**8,831**	**11,508**
TOTAL LIABILITIES AND EQUITY		**21,954**	**24,340**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	1 Q 2014	1 Q 2013
Continuing operations			
Revenue	11, 12	12,171	11,675
Cost of goods sold	13	-6,254	-5,594
Gross profit		**5,917**	**6,081**
Distribution costs	14	-5,954	-5,711
Administrative and general expenses	15	-717	-735
Other operating income	16	2	9
Other operating expenses	16	-74	-7
Operating loss		**-826**	**-363**
Finance income	17	0	17
Finance costs	17	-79	-93
Loss before income tax		**-905**	**-439**
Income tax expense		-5	0
Net loss from continuing operations		**-910**	**-439**
Net loss for the period from discontinued operations	20	-1,572	-164
Net loss for the period		**-2,482**	**-603**
Basic earnings per share, EUR	18	-0.06	-0.02
Continuing operations		-0.02	-0.01
Discontinued operations		-0.04	0.00
Diluted earnings per share, EUR	18	-0.06	-0.02
Continuing operations		-0.02	-0.01
Discontinued operations		-0.04	0.00

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	1 Q 2014	1 Q 2013
Net loss for the period		**-2,482**	**-603**
Other comprehensive income (loss)			
Items that subsequently might be classified to profit or loss statement:			
Currency translation differences		-226	20
Total comprehensive loss for the period		**-2,708**	**-583**

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CONSOLIDATED CASH FLOW STATEMENT

	Note	1 Q 2014	1 Q 2013
Operating activities			
Operating loss		-826	-363
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	13-15	312	374
Loss from disposal of PPE		-2	1
Net loss of discontinued operation		-1,572	-164
Loss from disposal of PPE of discontinued operation		166	0
Other non-monetary expenses		80	19
Changes in working capital:			
Change in trade and other receivables	4	342	-96
Change in inventories	5	1,341	17
Change in trade and other payables	9	-516	-771
Interest paid		-77	-66
Income tax paid		-5	0
Net used in operating activities		**-757**	**-1,049**
Investing activities			
Acquisition of property, plant and equipment, intangibles	6, 7	-401	-1,042
Proceeds from disposal of PPE		2	0
Net cash used in investing activities		**-399**	**-1,042**
Financing activities			
Repayments of borrowings	8	-274	-360
Change in bank overdraft	8	1,090	1,185
Repayments of finance lease		-12	-5
Redemption of share options		0	-3
Net cash generated from financing activities		**804**	**817**
Total cash flows		**-352**	**-1,274**
Cash and cash equivalents at the beginning of the period	3	**852**	**2,078**
Effect of exchange gains on cash and cash equivalents		-42	11
Cash and cash equivalents at the end of the period	3	**458**	**815**
Change in cash and cash equivalents		**-394**	**-1,263**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent					
	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total equity
Balance as at 31 Dec 2012	**7,159**	**63**	**1,182**	**2,471**	**-689**	**10,186**
Loss for the period	0	0	0	-603	0	-603
Other comprehensive income	0	0	0	0	20	20
Total comprehensive loss	**0**	**0**	**0**	**-603**	**20**	**-583**
Equity-settled share-based transactions (Note 15)	0	31	0	0	0	31
Balance as at 31 March 2013	**7,159**	**94**	**1,182**	**1,868**	**-669**	**9,634**
Balance as at 31 Dec 2013	**8,159**	**684**	**1,182**	**2,573**	**-1,090**	**11,508**
Loss for the period	0	0	0	-2,482	0	-2,482
Other comprehensive loss	0	0	0	0	-226	-226
Total comprehensive loss	**0**	**0**	**0**	**-2,482**	**-226**	**-2,708**
Equity-settled share-based transactions (Note 15)	0	31	0	0	0	31
Balance as at 31 March 2014	**8,159**	**715**	**1,182**	**91**	**-1,316**	**8,831**

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 first quarter ended 31 March 2014 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 2013, 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 2013. New and revised standards and interpretations effective from 1 January 2014 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale that are likely to be sold within twelve months and when the Management has actively commited to sell. Non-current assets held for sale are classified as current assets and depreciation of assets is stopped in the moment the assets are classified as held for sale. Non-current assets held for sale are recorded at the lower of carrying valueo r fair value (minus costs to sell).

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 from continuing operations not pegged to euro constitute 84% (2013: 61%). Most important currencies in retail markets are 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.

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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 following:

Average currencies	**1 Q 2014**	**1 Q 2013**
RUB (Russian rouble)	-19.65%	-1.52%
UAH (Ukrainian hryvnia)	-14.20%	-0.90%
USD (US dollar)	-3.71%	-0.75%

The changes in foreign currency rates against euro between balance-sheet dates were following:

Balance-sheet date rates	
RUB (Russian rouble)	-7.62%
UAH (Ukrainian hryvnia)	-36.51%
USD (US dollar)	0.02%

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 2014 and 2013. 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 or Euonia and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

All non-current borrowings as at 31 March 2014 and 31 December 2013 were subject to a floating interest rate based on Euribor, which is fixed every six months (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.

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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 March 2014 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted 1,151 thousand euros (31 December 2013: 1,069 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 March 2014 was 1,344 thousand euros (31 December 2013: 1,000 thousand euros).

Financial liabilities by maturity at 31 March 2014

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	5,966	2,670	3,690	6,360
Finance lease liabilities (Note 8)	144	40	123	163
Convertible bonds (Note 8)	24	0	24	24
Trade payables (Note 9)	4,584	4,584	0	4,584
Other financial liabilities	4	4	0	4
Total	**10,722**	**7,298**	**3,837**	**11,135**

Financial liabilities by maturity at 31 December 2013

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
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**

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

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[2]Used 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 this goal was achieved. However in the end of the first quarter 2014 the goal was not achieved. There are number of factors affecting this: loss recognised on the remeasurement of the assets of disposal group, characteristic of the first quarter seasonality, also increase in borrowings.

Net gearing ratio

	31 March 2014	31 Dec 2013
Interest carrying borrowings (Note 8)	6,110	5,305
Cash and bank (Note 3)	-458	-852
Net debt	5,652	4,453
Total equity	8,831	11,508
Total capital to net debt ratio	**64%**	**39%**

Fair value

The Group estimates that the fair values of the assets and liabilities measured in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 March 2014 and 31 December 2013. 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.

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NOTE 3 Cash and cash equivalents

	31 March 2014	31 Dec 2013
Cash on hand	115	295
Cash at bank and overnight deposits	343	557
Total	**458**	**852**

Cash and cash equivalents by currency

	31 March 2014	31 Dec 2013
RUB (Russian rouble)	224	241
EUR (euro)	138	173
LTL (Lithuanian lit)	96	126
UAH (Ukrainian hryvnia)	0	213
LVL (Latvian lat)	0	99
Total	**458**	**852**

NOTE 4 Trade and other receivables

Short-term trade and other receivables	31 March 2014	31 Dec 2013
Trade receivables, net	756	755
Other prepaid expenses	356	617
Tax prepayments and tax reclaims, thereof	206	79
Value added tax	182	41
Prepaid income tax	13	13
Other taxes	11	25
Other current receivables	24	63
Total	**1,342**	**1,514**

Long-term assets		
Non-current lease prepayments	379	549
Other long-term receivables	464	464
Total	**843**	**1,013**

Information about the receivables from related parties is in Note 19. Information about discontinued operations in Note 20.

Trade receivables (net) by due date

	31 March 2014	31 Dec 2013
Not due	567	621
Up to 1 month past due	134	59
1-3 months past due	47	73
3-6 months past due	8	2
Total	**756**	**755**

Trade receivables (net) in denominated currency

	31 March 2014	31 Dec 2013
EUR (euro)	663	580
RUB (Russian rouble)	82	87
LTL (Lithuanian lit)	11	24
LVL (Latvian lat)	0	45
UAH (Ukrainian hryvnia)	0	19
Total	**756**	**755**

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NOTE 5 Inventories

	31 March 2014	31 Dec 2013
Fabrics and accessories	1,928	2,192
Work-in-progress	72	72
Finished goods and goods purchased for resale	9,830	11,306
Allowance for impairment of finished goods and goods purchased for resale	0	-342
Prepayments to suppliers	580	523
Total	**12,410**	**13,751**

Information about discontinued operations in Note 20.

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments, PPE not yet in use	Total
31 December 2012					
Acquisition cost	**3,975**	**5,480**	**6,645**	**3**	**16,103**
Accumulated depreciation	-3,303	-4,786	-5,758	0	-13,847
Net book amount	**672**	**694**	**887**	**3**	**2,256**
Additions	266	90	417	68	841
Reclassifications from inventories	0	0	0	1	1
Disposals	0	0	-1	0	-1
Reclassifications to inventory	0	0	-2	0	-2
Reclassification	0	-34	38	-4	0
Depreciation	-88	-92	-118	0	-298
Currency translation differences	6	1	3	3	13
31 March 2013					
Acquisition cost	**4,167**	**5,547**	**6,975**	**71**	**16,760**
Accumulated depreciation	-3,311	-4,888	-5,751	0	-13,950
Net book amount	**856**	**659**	**1,224**	**71**	**2,810**
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**
Additions	133	19	174	1	327
Depreciation	-95	-76	-110	0	-281
Reclassifications as non-current assets held for sale	-91	-16	-57	0	-164
Currency translation differences	-49	-15	-32	0	-96
31 March 2014					
Acquisition cost	**3,863**	**5,298**	**6,488**	**1**	**15,650**
Accumulated depreciation	-3,039	-4,661	-5,141	0	-12,841
Net book amount	**824**	**637**	**1,347**	**1**	**2,809**

Information about discontinued operations in Note 20.

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NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Prepay-ments	Goodwill	Total
31 December 2012					
Acquisition cost	**2,296**	**1,243**	**0**	**2,279**	**5,818**
Accumulated depreciation	-1,464	-204	0	0	-1,668
Net book amount	**832**	**1,039**	**0**	**2,279**	**4,150**
Additions	2	0	0	0	2
Amortisation	-68	-11	0	0	-79
Currency translation differences	0	0	0	17	17
31 March 2013					
Acquisition cost	**2,302**	**1,243**	**0**	**2,296**	**5,841**
Accumulated depreciation	-1,536	-215	0	0	-1,751
Net book amount	**766**	**1,028**	**0**	**2,296**	**4,090**
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**
Additions	3	0	71	0	74
Disposals, impairments	-1	0	0	0	-1
Amortisation	-43	-11	0	0	-54
Currency translation differences	-2	0	0	-112	-114
31 March 2014					
Acquisition cost	**2,178**	**1,243**	**71**	**1,971**	**5,463**
Accumulated depreciation	-1,605	-260	0	0	-1,865
Net book amount	**573**	**983**	**71**	**1,971**	**3,598**

NOTE 8 Borrowings

	31 March 2014	31 Dec 2013
Current borrowings		
Current portion of non-current bank loans	1,316	2,341
Current bank loans	949	652
Current portion of finance lease liabilities	36	39
Other current loans (Note 19)	126	126
Total	**2,427**	**3,158**
Non-current borrowings		
Non-current bank loans	3,575	2,031
Non-current finance lease liabilities	108	116
Convertible bonds, share options (Note 19)	24	24
Total	**3,707**	**2,171**
Total borrowings	**6,134**	**5,329**

During the reporting period, the Group made loan repayments in the amount of 274 thousand euros (2013: 360 thousand euros). Interest expense of all interest carrying borrowings of the reporting period amounted to 80 thousand euros, including 2 thousand euros interest expense from the loan of related party (2013: 88 thousand euros, including 28 thousand euros interest expense from convertible bonds). Group´s overdraft facilities with the banks were used in the amount of 2,656 thousand euros as at 31 March 2014 (31 December 2013: 1,566 thousand euros).

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Changes in 2014

In the first quarter the Group signed an annex under an existing facility agreement, which prolonged repayment dates for loans and increased the overdraft limit in the amount of 1,4 million euros. The same annex provides the overdraft increase and decrease according to the seasonality.

Interest carrying loans and bonds of the Group as at 31 March 2014

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR or EONIA +4,41%	5,840
Borrowings at fixed interest rate (Note 19)	7.00%	126
Total		**5,966**

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

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR or EONIA +4,36%	5,024
Borrowings at fixed interest rate (Note 19)	7.00%	126
Total		**5,150**

NOTE 9 Trade and other payables

	31 March 2014	31 Dec 2013
Current liabilities		
Trade payables	4,584	4,966
Tax liabilities, thereof	1,114	1,352
Personal income tax	230	228
Social security taxes and unemployment insurance premium	538	539
Value added tax	319	541
Corporate income tax liability	2	17
Other taxes	25	27
Payables to employees[1]	1,185	1,088
Other accrued expenses	4	2
Customer prepayments	24	20
Other current payables	78	75
Total	**6,989**	**7,503**

[1]Payables 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 March 2014	31 Dec 2013
EUR (euro)	3,436	3,526
USD (US dollar)	1,026	1,189
GBP (British pound)	69	66
LTL (Lithuanian lit)	39	71
RUB (Russian rouble)	18	21
LVL (Latvian lat)	0	71
UAH (Ukrainian hryvnia)	0	24
Total	**4,588**	**4,968**

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NOTE 10 Equity

Share capital and reserves

	31 March 2014	31 Dec 2013
Share capital	8,159	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182

As at 31 March 2014 and 31 December 2013, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for. As at 31 March 2014 and 31 December 2013 share capital consists of ordinary shares, that are listed on the Tallinn Stock Exchange.

Convertible bonds

	Issue date	Bond conversion period	Number of convertible bonds 31 March 2014	Number of convertible bonds 31 Dec 2013
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 March 2014

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	6,483,624	15.89%
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	9,829,438	24.11%
Total	**40,794,850**	**100.00%**

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%**

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

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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.

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.

Data of the revenue, profit (loss), depreciation and amortisation of the segments are disclosed for continued operations.

The segment information provided to the Management Board for the reportable segments

	Retail, Baltic region	Retail, Eastern Europe	Whole-sale[1]	Total
1 Q 2014 and as at 31 March 2014				
Revenue (from external customers)	9,273	1,837	1,061	12,171
Segment profit (loss)[2]	1,071	-216	268	1,123
Incl. depreciation and amortisation	-154	-53	-1	-208
Inventories of segments	4,197	1,021	0	5,218
1 Q 2013 and as at 31 March 2013				
Revenue (from external customers)	8,399	2,379	897	11,675
Segment profit (loss)2	998	-192	244	1,050
Incl. depreciation and amortisation	-152	-72	0	-224
Inventories of segments	3,794	1,873	0	5,667
thereof inventories of discontinued operations	*0*	*810*	*0*	*810*

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

Reconciliation of segment profit to consolidated operating profit

	1 Q 2014	1 Q 2013
Total segment profit	1,123	1,050
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-1,160	-680
Administrative and general expenses	-717	-735
Other operating income (expenses), net	-72	2
Operating profit (loss)	**-826**	**-363**

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

Reconciliation of segment inventories to consolidated inventories

	31 March 2014	31 Dec 2013	31 March 2013
Total inventories of segments	5,218	6,817	5,667
Inventories in Parent company and production company	7,192	6,934	5,788
Inventories on statement of financial position	**12,410**	**13,751**	**11,455**

Information about discontinued operations in Note 20.

NOTE 12 Revenue

	1 Q 2014	1 Q 2013
Sale of goods in retail	11,109	10,778
Sale of goods in wholesale	1,026	874
Other	36	23
Total	**12,171**	**11,675**

Sales by geographical (client location) areas

	1 Q 2014	1 Q 2013
Estonia	4,490	4,148
Lithuania	2,682	2,481
Latvia	2,533	2,196
Russia	2,015	2,492
Finland	246	257
Germany	101	94
Other countries	104	7
Total	**12,171**	**11,675**

NOTE 13 Cost of goods sold

	1 Q 2014	1 Q 2013
Materials and supplies	5,407	4,979
Payroll costs in production	866	748
Operating lease expenses	169	167
Other production costs	108	115
Depreciation (Notes 6,7)	46	45
Change in allowance for inventories	-342	-460
Total	**6,254**	**5,594**

NOTE 14 Distribution costs

	1 Q 2014	1 Q 2013
Payroll costs	2,449	2,332
Operating lease expenses	2,145	2,125
Advertising expenses	323	263
Depreciation and amortisation (Notes 6,7)	240	259
Fuel, heating and electricity costs	164	174
Fees for card payments	92	89
Travel expenses	69	72
Municipal services and security expenses	60	45
Consultation and management fees	52	49
Information technology expenses	43	44
Communication expenses	33	37
Other sales expenses[1]	284	222
Total	**5,954**	**5,711**

[1]Other 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.

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NOTE 15 Administrative and general expenses

	1 Q 2014	1 Q 2013
Payroll costs[1]	325	323
Operating lease expenses	118	111
Information technology expenses	70	58
Bank fees	54	52
Depreciation and amortisation (Notes 6,7)	26	41
Fuel, heating and electricity expenses	31	34
Management, juridical-, auditor´s and other consulting fees	18	32
Sponsorship, gifts, donations	4	14
Other administrative expenses[2]	71	70
Total	**717**	**735**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in the amount of 31 thousand euros (2013: 31 thousand euros).
[2]Other administrative expenses consist of insurance and office, communication, travel, training, municipal and security expenses and other services.

NOTE 16 Other operating income and expenses

	1 Q 2014	1 Q 2013
Gain from sale, impairment of PPE, non-current assets	2	0
Other operating income	0	1
Foreign exchange gain (loss)	-67	7
Fines, penalties and tax interest	-5	-3
Other operating expenses	-2	-3
Total	**-72**	**2**

NOTE 17 Finance income and costs

	1 Q 2014	1 Q 2013
Interest costs	-79	-88
Foreign exchange income (losses)	0	17
Other finance costs (net)	0	-5
Total	**-79**	**-76**

NOTE 18 Earnings per share

Basic earnings per share		**1 Q 2014**	**1 Q 2013**
Weighted average number of shares (thousand)	pcs	40,795	35,795
Net loss from continuing operations		-910	-439
Net loss from discontinued operations		-1,572	-164
Basic earnings per share	**EUR**	**-0.06**	**-0.02**
Basic earnings per share (continuing operations)	EUR	-0.02	-0.01
Basic earnings per share (discontinued operations)	EUR	-0.04	0.00
Diluted earnings per share	**EUR**	**-0.06**	**-0.02**
Diluted earnings per share (continuing operations)	EUR	-0.02	-0.01
Diluted earnings per share (discontinued operations)	EUR	-0.04	0.00

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in the reporting period was 0.55 euros (2013: 0.67 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.

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

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

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

Transactions with related parties

	1 Q 2014 Purchases	1 Q 2013 Purchases
Services	60	57
Total	**60**	**57**

In 2014 as well as 2013 AS Baltika bought mostly management, communication and other services from related parties.

Balances with related parties

	31 March 2014	31 Dec 2013
Other current loans and interests, penalties (Note 8, 9)	147	145
Trade payables (Note 9)	43	50
Payables to related parties total	**190**	**195**

All transactions in 2014 as well as in 2013 reporting periods and balances with related parties as at 31 March 2014 and 31 December 2013 were with entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members. As at 31 March 2014 and 31 December 2013 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

	1 Q 2014	1 Q 2013
Salaries of the members of the Management Board	87	88
Remuneration of the members of the Supervisory Council	5	5
Total	**92**	**93**

As at 31 March 2014 and 31 December 2013 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 Discontinued operations, non-current assets held for sale

Baltika AS has decided to exit Ukrainian retail market to hedge economic and political risks. Management Board considered number of alternatives to hedge the risks in Ukrainian market and as at 31 March 2014 was actively seeking for an interested buyer.

As Ukrainian market represents a major line of business in Group´s activities, and its operations and cash flows can be clearly distinguished from other Group´s operations and cash flows, it´s results are reported as discontinued operations in the current interim report. Previously Ukrainian subsidiary´s results were reported as a part of the East European segment.

As at 31 March 2014 Ukrainian subsidiary´s assets are classified as non-current assets held for sale. As non-current assets held for sale are recorded at fair value less costs to sell, if it is lower than the carrying value. Due to difficult economic situation in Ukraine, the Group has recognised loss from the re-measurement of the assets of the disposal group in the amount of 1,095 thousand euros, therefore the carrying value of the non-current asset held for sale as at 31 March 2014 is zero. Detailed extract of non-current asset held for sale is as follows:

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Non-current assets held for sale	
Inventories	675
Property, plant and equipment	164
Deposits, prepayments and other assets	256
Total non-current assets held for sale before re-measurement of assets	**1,095**
Loss from the re-measurement of the assets of the disposal group	-1,095
Total non-current assets held for sale after re-measurement of assets	**0**

About non-current assets held for sale see also Note 21.

An extract of the revenue and expenses of discontinued operation

	1 Q 2014	**1 Q 2013**
Discontinued operation		
Revenue	1,276	1,512
Expenses	-1,585	-1,695
Other operating income (expense)	-168	19
Loss before income tax	**-477**	**-164**
Loss from the re-measurement of the assets of the disposal group	-1,095	0
Net loss for the reporting period	**-1,572**	**-164**

Consolidated cash-flow of the discontinued operation

	1 Q 2014	**1 Q 2013**
Net cash used in operating activities	-180	-20
Net cash used in investing activities	-8	-68
Total cash flows	**-188**	**-88**
Cash and cash equivalents at the beginning of the period	**213**	**144**
Effect of exchange gains on cash and cash equivalents	-25	2
Cash and cash equivalents at the end of the period	**0**	**58**
Change in cash and cash equivalents	**-213**	**-86**

NOTE 21 Business combinations

Baltika signed on 29 April 2014 an agreement to sell the shares of the subsidiary Baltika Retail Ukraina Ltd to Osaühing Ellipse Group. Sales price of the shares was substantially equal to subsidiary´s net assets, therefore no profit or loss from the sales transaction was recorded in Group´s statements. A five-year payment schedule was made for Baltika´s receivables from Baltika Retail Ukraina Ltd in the amount of 1,247 thousand euros. The receivable is secured with commercial pledge and its collection is connected with the development of Ukrainian economy and the improvement of the company´s results. The impairment made for non-current assets held for sale in the amount of 1,095 thousand euros, according to prudence principle, is omitted as the impairment allowance for the receivable from Baltika Retail Urkaina.

On 28 April 2014 the annual general meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 3 million euros. The general meeting decided to issued 600 convertible bonds with the nominal value of 5,000 euros. The bond subscription period is from 14 to 28 July 2014. The convertible bonds carry an annual interest rate of 6.5% and give its owner the right to subscribe for 10,000 Baltika´s shares at 0.5 subscription price.

AS BALTIKA SUPERVISORY COUNCIL

JAAKKO SAKARI MIKAEL SALMELIN
Member of the Supervisory Council since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 31 March 2014: 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 March 2014: 977,837 shares (on AS Genteel account)

REET SAKS
Member of the Supervisory Council since 25.03.1997
Attorney at Raidla Lejins & Norcous Law Office
Degree in Law, University of Tartu
Other assignments:
Member of the Management Board of MTÜ International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group.
Baltika shares held on 31 March 2014: 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 Külmhoone 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 Dzirnavnieks,
Chairman of the Board of Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 March 2014: 24 590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Council since 20.04.2012
Chairman of the Board of AS EMT
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Chairman of the Board of AS Eesti Telekom
Baltika shares held on 31 March 2014: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31 March 2014: 743,531 shares[1]

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika shares 31 March 2014: 0

MAIRE MILDER
Member of the Management Board, Branding and Retail Developing Director
Member of the Board since 2000, in the Group since 1999
Degree in Biology and Geography, University of Tartu
Baltika shares held on 31 March 2014: 316,083 shares (thereof 30,000 shares on Maisan OÜ account)[1]

ANDREW J. D. PATERSON
Member of the Management Board, Commercial Director
Member of the Board since 2008, in the Group since 2003
Baltika shares held on 31 March 2014: 11,000 shares

KATI KUSMIN
Member of the Management Board, Sales and Marketing Director
Member of the Board since 2012, in the Group since 2012
Degree in Economics, Tallinn University of Technology
Baltika shares 31 March 2014: 0

[1]The members of the Management Board of AS Baltika also own shares through the holding company OÜ BMIG (see Corporate governance annual report section "Management Board").