AS BALTIKA

Consolidated interim report for the second quarter and 6 months of 2012

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
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E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2012 – 31 December 2012
Reporting period	1 January 2012 – 30 June 2012

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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 four retail concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. The Group employs a vertically integrated business model, which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The Group also sells its collections through wholesale.

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

As at 30 June 2012, the Group employed 1,289 people (31 December 2011: 1,363).

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 as at 30 June 2012	Holding as at 31 Dec 2011
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[1]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[1]	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd[1]	Ukraine	Retail	100%	100%
OOO Kompania “Baltman RUS” [1]	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
AS Virulane[2]	Estonia	Production	-	93.8%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

[1]Interest through a subsidiary.

[2]In May 2012 Baltika AS acquired non-controlling interest of Virulane AS (6,2%) and became 100% shareholder of Virulane AS. In June 2012 a merger agreement between Virulane AS and Baltika AS was signed, date of merger is 1 January 2012.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, SECOND QUARTER AND 6 MONTHS 2012

Baltika's second quarter net profit amounted to 572 thousand euro and the group achieved 1 408 thousand euros EBITDA that signifies 11% EBITDA margin.

Profitability was achieved essentially as a result of previous action to restructure retail network and streamlining internal work processes. The most important steps in retail network restructuring were the closing of loss making stores in 2010-2011, and initiatives to improve sales efficiency through increasing the number of multi-brand concept stores. Additionally, third party brands were added to further enhance the product selection offered to customers through concession agreements (third party products included the German men's clothing brand Stones, hand-made JAG men's shoes in Baltman stores, women's clothing brand TSCity in Ukraine etc). Retail network restructuring was finalised in 2011 with last closing of stores in the beginning of 2012.

Baltika sales in the second quarter amounted to 13,157 thousand euros, an increase of 4% in spite of an 8% decrease in average operating area. The Group's sales efficiency increased in the second quarter by 12%. Highest sales growth came from Latvia with a 19% increase and from a brand perspective the highest sales growth was achieved by Baltman and Ivo Nikkolo with 21% and 18% increase respectively. With half-year total sales growth of 6% and sales efficiency growth of 14% the company is on track to achieve the financial targets set for 2012, which is 5% and 10% growth respectively.

Strong cost control in the supply chain and good fashion collections with improved inventory management have increased the gross profit margin to 59%, that is one percentage point better than the second quarter of previous year.

Work done on cost efficiency lead to a further reduction of operating expenses, which have decreased in the second quarter by 366 thousand euros i.e. 5%. Operating expenses ratio to revenues was 52% in the second quarter, improving 7 percentage points compared to same period in last year (Q2 2011: 59%). This supports the company's financial targets also on the cost side, where the target was improving the ratio by 4 percentage points for the full year.

The company's management anticipate that in spite of the financial tensions in Europe sales will continue to grow in the Baltics and Russia, while the situation in Ukraine remains complicated. Company plans to invest in the existing retail network and new stores 5,000 thousand euros, from which at least 3,000 thousand euros will be invested during the current and following year. Baltika's additional objective is to increase its international marketing capability and develop in addition to own retail network through multi- channels. The company will achieve this by growing the traditional wholesale and e-commerce business as well as by finding international franchise and concession operators.

2012 second quarter highlights

- Annual general meeting of shareholders on 20 April elected Supervisory Council composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Board meeting on 23 May elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Board.

- In accordance with the decision taken to decrease share capital on the Annual general meeting of shareholders new share capital of AS Baltika was registered in the Commercial Register on 11 May 2012 and the new share capital is 7,159 thousand euros.

- Continuing the partnership formed with the Estonian Olympic Committee in 2004, Monton provided the Estonian London Olympic team with ceremonial uniforms and leisurewear. The Olympic fans gear collection that Monton launched in the second quarter performed well during presale and has been selling well since May both in the retail system and the e-store.

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Significant events post balance sheet date were the sale of property and taking up of a new investment loan

On 31 July AS Baltika subsidiary OÜ Baltika TP signed sales agreement with AS Kawe Group to divest Veerenni 24 (office buildings and land). Baltika Group will continue to rent the space for its head office and Moetänav store space at the site.

The transaction amounts to 13.6 million euros from which 13 million euros was settled at the time of signing the agreement and 0.6 million euros will be paid in equal instalments over the next five years.

The sale price is equal to the book value of the asset and as such the sale transaction has no significant impact for in the income statement.

The impact on the balance sheet is illustrated with the following table, that shows financial position if transaction would have occurred on 30 June 2012.

Financial position (in thousand euros)

	30.06.2012	**30.06.2012 with transaction**
Current assets, including	19,102	14,193
assets held for sale	5,029	0
Non-current assets, including	15,967	7,898
investment property	8,549	0
TOTAL ASSETS	**35,069**	**22,091**
Total current liabilities	10,793	10,425
Total non-current liabilities	15,582	2,972
TOTAL LIABILITIES	**26,375**	**13,397**
TOTAL EQUITY	8,694	8,694
TOTAL LIABILITIES AND EQUITY	**35,069**	**22,091**
Debt to equity ratio	**215%**	**65%**

To increase the company's investment capability AS Baltika has signed an addendum to the contract with AS Swedbank on 31 July 2012 according to which a 3 million euros additional loan will be granted to the company based on the investment plan for the next 12 months. AS Swedbank also prolonged the maturity date of outstanding 0.6 million euros long-term loan by about two years. The new investment loan and existing 0.6 million euros loan maturity date is 28 July 2016. No changes were made to the interest margin.

AS Baltika made an early repayment of 13 million euros Swedbank loan from the sale of Veerenni 24 property, significantly reducing the companies' level of debt. The combination of lower level of borrowings and new time schedule will positively impact company's cash flows in the coming years, with over 2 million euros benefit in 2013.

The sale of property will impact the results of the company going forward with no further rental income and a rent expense for head office and the Moetänav store, which will be compensated from decreased interest expenses and sales growth resulting from investments into the retail network. The impact is larger on EBITDA, as the loss of rental income and the rental expense decrease EBITDA, while reduction in interest expense will not impact the EBITDA calculation. As the first half-year results have exceeded the planned results the management expects that the financial target of 3,000 thousand euros EBITDA in 2012 (which did not include impact from property sale) is still achievable.

REVENUE

Baltika Group first half-year revenue amounted to 25,800 thousand euros, increasing 6% compared to same period in previous year. Baltika Group revenue increased in second quarter of 2012 by 514 thousand euros i.e. 6% compared to the same period in the previous year. Revenue growth of 285 thousand euros came from retail and 110 thousand euros from wholesale.

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Revenue by activity

EUR thousand	Q2 2012	Q2 2011	+/-	6m 2012	6m 2011	+/-
Retail	12,376	12,092	2%	23,907	22,847	5%
Wholesale	531	421	26%	1,369	1,266	8%
Rent	176	115	53%	344	225	53%
Sewing services	12	6	100%	89	60	48%
Other	62	8	675%	91	15	507%
Total	**13,157**	**12,642**	**4%**	**25,800**	**24,413**	**6%**

Retail

Retail revenue amount to 23,907 thousand euros in the first half-year of 2012, which signifies 5% increase compared to prior year. Baltika's revenue continued to grow: in the second quarter of 2012 the Group achieved 2% sales growth on an 8% smaller average sales area. Sales continued rising across the Baltics with an exceptional result in the Latvian market (19% up). Russian sales decreased by 9% in aggregate, but considering that restructuring of the retail system had reduced operating area by 15% existing Russian stores posted strong results. The most problematic market in the second quarter continued to be Ukraine, where sales grew by 6% but the rise was attributable to the strength of the hryvna against the euro. Ukraine's unstable economic environment and low consumer confidence have undermined growth in demand and are exerting pressure on prices.

Retail sales by market

EUR thousands	Q2 2012	Q2 2011	+/-	Share	6m 2012	6m 2011	+/-	Share
Estonia	3,960	3,648	9%	32%	7,265	6,456	13%	26%
Russia	2,315	2,538	-9%	19%	4,745	5,081	-7%	24%
Lithuania	2,401	2,334	3%	19%	4,717	4,452	6%	19%
Ukraine	1,575	1,480	6%	13%	3,160	2,974	6%	14%
Latvia	2,125	1,789	19%	17%	4,020	3,279	23%	14%
Poland	0	303	-100%	0%	0	605	-100%	3%
Total	**12,376**	**12,092**	**2%**	**100%**	**23,907**	**22,847**	**5%**	**100%**

Stores and sales area

In the second quarter of 2012, Baltika opened a revamped Mosaic store in the enlarged Magistral shopping centre in Tallinn. It is the first Mosaic store that has been refurbished using elements of the new Mosaic concept, which is better aligned with the brand's positioning and creates a better shopping environment for the target customers. Most refurbishments of existing and launches of new Mosaic and Monton stores that are going to follow the new brand concepts have been scheduled for 2013. In the second quarter, the Group closed two stores in Russia and one in Ukraine.

Stores by market

	30.06.2012	30.06.2011	Area change
Estonia	30	30	0%
Lithuania	28	29	-1%
Russia	17	21	-18%
Ukraine	16	17	-7%
Latvia	15	15	-2%
Poland	0	4	-100%
Total stores	**106**	**116**	
Total sales area, sqm	**21,368**	**23,582**	**-9%**

Sales per sqm that shows retail network efficiency grew in second quarter of 2012 in all of the markets and the increase of 12% exceeds company's set objective of 10% growth. By far the best sales efficiency growth was in Latvia, where all the brands increased the sales efficiency. Consumer confidence is also supported by new VAT ratevalid from 1 July 2012 that is 1 percentage point lower than previous (21% instead of previous 22%).

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Sales efficiency by market (sales per sqm, EUR)

	Q2 2012	Q2 2011	+/-	6m 2012	6m 2011	+/-
Estonia	230	206	12%	212	183	16%
Russia	195	181	8%	193	173	12%
Lithuania	145	140	4%	142	133	7%
Ukraine	157	150	5%	156	151	3%
Latvia	220	182	21%	206	167	23%
Poland	0	100	-100%	0	100	-100%
Total	**190**	**170**	**12%**	**182**	**159**	**14%**

[1]In local currency, second quarter sales efficiency grew by 6% in Russia and -5% in Ukraine.

Brands

The highest sales increase in the second quarter from brands was from Baltman and Ivo Nikkolo – 21% and 18% accordingly.

Baltman delivered the biggest sales growth due to both expanded sales area and increased sales at existing stores, achieving second quarter sales efficiency rise by 11%. In the second quarter, Baltman increased sales of both the ordinary collection and the special-order suits. To date, the custom made suit service has been successfully expanded from Tallinn to Riga and Vilnius and the suit offering has been supplemented with custom measured shirts. Baltman's custom made suit was also the chosen attire of Ott Lepland who represented Estonia at the Eurovision song contest.

The sales of Ivo Nikkolo increased not only at the brand's own stores but also in new locations at Baltika's multi-brand stores. In the second quarter and first half-year, retail sales of Ivo Nikkolo grew by 18% thousand euros and 213 thousand euros, i.e. 13%, year over year respectively.

Monton's second quarter retail sales decreased by 4% but in light of an 11% decrease in the average operating area, the result is more than satisfactory. Revenue growth on the existing sales area was underpinned by a strong summer collection as well as the Olympic fan gear collection launched in May, which attracted a wider than usual clientele. The success of this year's Olympic collection is based on fashionable and functional ceremonial and fan attire, high pre-sales to wholesale partners, sports associations and companies as well as strong retail sales at the Monton stores and the e-store. Through the Monton e-store, the collection has been sold to customers in Estonia, Great Britain, Germany, Finland, Luxembourg, the Netherlands, Spain and Poland.

Retail revenue by brand

EUR thousands	Q2 2012	Q2 2011	+/-	Share	6m 2012	6m 2011	+/-	Share
Monton	6,290	6,531	-4%	51%	12,327	12,171	1%	52%
Mosaic	3,985	3,823	4%	32%	7,516	7,240	4%	31%
Baltman	1,209	996	21%	10%	2,184	1,806	21%	9%
Ivo Nikkolo	862	732	18%	7%	1,827	1,614	13%	8%
Other	30	10	204%	0%	53	16	234%	0%
Total	**12,376**	**12,092**	**2%**	**100%**	**23,907**	**22,847**	**5%**	**100%**

Mocaic retail revenue increased by 4% in the second quarter and Mosaic showed the best sales efficiency growth with 12%. The improvement in sales efficiency was supported mainly by the brands strong women's collection.

Sales efficiency and change in average sales area by brand (**sales per sqm, EUR**)

Sales efficiency	Q2 2012	Q2 2011	+/-	Average area change	6m 2012	6m 2011	+/-	Average area change
Monton	174	161	8%	-11%	172	148	16%	-12%
Mosaic	183	163	12%	-7%	170	153	11%	-6%
Baltman	321	288	11%	9%	282	262	7%	13%
Ivo Nikkolo	244	226	8%	9%	258	243	6%	7%
Total retail	**190**	**171**	**11%**	**-8%**	**182**	**160**	**14%**	**-8%**

Wholesale

Wholesale amounted to 521 thousand euros in the second quarter 2012 that is increase of 26% compared to 421 thousand euros in prior year comparative period.

Most of the Group's long-term wholesale partners increased sales in the second quarter. The only exception was the Eastern European partner that divested some of its stores in the second half of 2011 and therefore experienced shrinkage in volumes. In the second quarter the Group found some new wholesale partners who have helped the collections of Baltika's brands to penetrate new markets such as Belarus. The Estonian wholesale figures were supported by Monton's Olympic collection, which is also distributed by the wholesale partners.

OPERATING EXPENSES AND NET LOSS

The Group's gross profit for the second quarter of 2012 amounted to 7,746 thousand euros, that is 430 thousand euros i.e. 6% increase year-over-year on a sales area that was 8% smaller on average. Gross profit margin was 59% which is one percentage point higher than in prior year second quarter.

In the second quarter of 2012 distribution expense decreased compared to the same period in 2011 by 5%, amounting to 6,235 thousand euros. Main contributor to decrease of distribution expense was average retail network area reduction by 8%. The distribution cost ratio to revenue has improved in second quarter by 5 percentage points from 52% in previous year to 47% in current year showing the more cost efficiency retail network.

The second quarter administrative and general expenses in the amount of 684 thousand euros have decreased by 9% compared to same period of last year. The reduction is the result of general operating expenses cost control.

Other operating income and –expenses for the second quarter of 2012 were 141 thousand euros and operating profit totalled 967 thousand euros (2011 second quarter operating loss 99 thousand euros).

The financial expense increased due to foreign currency exchange loss, but in total all months of the quarter resulted with net profit amounting for quarter in total 572 thousand euros.

FINANCIAL POSITION

As at 30 June 2012 Group inventories totalled 11,501 thousand euros, that is 1,453 thousand euros more than 2011 year-end. This is seasonal increase that is impacted by purchase and production of autumn collection that had already begun.

In line with the Group's announced intent to exit the real estate business, in June the preferred potential buyer was selected and sales negotiations began. Accordingly, in the financial statements as at 30 June 2012 an item of property, which was previously accounted for as property in own use, has been reclassified to non-current assets held for sale where it is carried at 5,029 thousand euros.

As at 30 June 2012 Group trade payables totalled 5,085 thousand euros. The payables have increased by 1,140 thousand euros compared to previous year-end due to seasonal changes, but compared to 30 June in prior year these liabilities have increased by 27%.

Based on 20 April 2012 annual general meeting of shareholders decision the company issued on 10 May 2012 1,500 thousand euros H-bonds which carry 7.5% interest. KJK Fund Sicav-SIF used for the subscription previously given loans and accrued interest in the amount of 1 296 thousand euros and paid 204 thousand euros in addition.

In addition based on 20 April 2012 annual general meeting of shareholders decision the company issued 23.5 thousand euros I-bonds that carry no interest to the management of Baltika Group companies. Each bond gives the owner the right to subscribe for one company share in three years' time with the subscription price 0.36 euros.

Good operating results of Baltika resulted in positive cash-flow, where second quarter cash-flow from operating activities was 588 thousand euros and that in spite of seasonal needs of stock intake. The same period cash-flow in 2011 was an outflow of 302 thousand euros.

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AS Baltika acquired in May 2012 from minority shareholder 6.2% of AS Virulane shares, whose production operations were divested in 2010 and has since then been dormant. In June AS Baltika and AS Virulane executed a merger agreement according to which AS Baltika merged AS Virulane with the balance date of 1 January 2012.

At the end of the quarter, the Group's net debt (interest-bearing liabilities less cash and bank balances) amounted to 18,018 thousand euros, a 569 thousand euro increase compared with 31 December 2011. The Group's net debt to equity ratio is still high (207%) but in the third quarter, when the cash received from the sale of real estate is used to settle loan liabilities, the loan burden will decrease significantly.

In accordance with the decision taken to decrease share capital on the Annual general meeting new share capital of AS Baltika was registered in the Commercial Register and the new share capital is 7,159 thousand euros.

PEOPLE

As at 30 June 2012, Baltika Group employed a total of 1,289 people, that is 74 people less than 31 December 2011 (1,363): 726 (31.12.2011: 765) in the retail system, 495 (31.12.2011: 433) in manufacturing and 168 (31.12.211: 165) at the head office and logistics centre. The half-year average number of staff was 1,309 (2011 first half-year: 1,406).

In June 2012 the Group appointed Oksana Lemish as the new director of the Russian market. Oksana Lemish has extensive retailing experience and has worked in the Russian market with various international fashion brands.

Baltika has signed an agreement with Kati Kusmin, a highly recognised retail and wholesale manager who will join the board as from 1 October 2012 as a member in charge of the Group's sales and marketing division. Kati Kusmin will be responsible for the sales and marketing strategies of the Monton, Mosaic, Ivo Nikkolo and Baltman brands and development of Baltika's new sales channels. In addition, Baltika has hired Andres Käär, who has long-term experience in commerce, as sales director responsible for increasing the wholesale revenues of the Monton, Mosaic, Ivo Nikkolo and Baltman brands and the Group's franchise and concession concepts.

Employee remuneration expense for the half-year of 2012 amounted to 5.1 million euros (2011: 5.3 million euros). The remuneration of the members of the Supervisory Council and Management Board totalled 136 thousand euros (2011: 154 thousand euros).

KEY FIGURES OF THE GROUP (II QUARTER AND 6 MONTHS OF 2012)

	Q2 2012	**Q2 2011**	**Q2 2010**	**Q2 2009**
Revenue (EUR thousand)	13,157	12,642	12,590	13,679
Retail sales (EUR thousand)	12,376	12,092	11,989	13,259
Share of retail sales in revenue	94%	96%	95%	97%
Gross margin	59.0%	58.0%	55.8%	48.2%
EBITDA (EUR thousand)	1,408	521	269	-1,364
EBITDA margin	10.7%	4.1%	2.1%	-10.0%
Operating margin	7.4%	-0.8%	-4.1%	-15.6%
EBT margin	4.4%	-3.5%	-6.8%	-16.4%
Net margin	4.3%	-3.5%	-7.0%	-16.4%

	6M and 30 June 2012	**6M and 30 June 2011**	**6M and 30 June 2010**	**6M and 30 June 2009**
Revenue (EUR thousand)	25,800	24,413	23,638	27,802
Retail sales (EUR thousand)	23,907	22,847	21,913	25,629
Share of retail sales in revenue	93%	94%	93%	92%
Number of stores	106	116	128	144
Sales area (sqm)	21,368	23,582	25,730	29,041
Number of employees (end of period)	1,289	1,420	1,520	1,816
Gross margin	55.0%	54.1%	51.4%	46.0%

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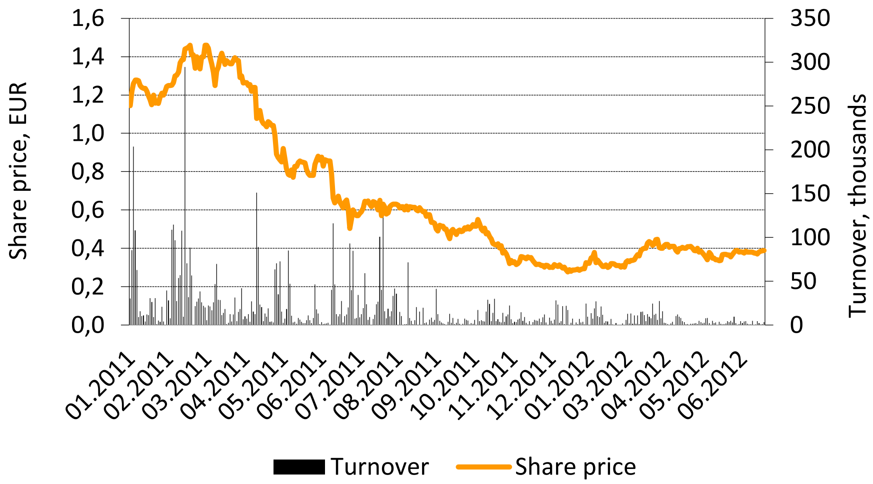
EBITDA (EUR thousand)	1,123	-930	-989	-4,121
EBITDA margin	4.4%	-3.7%	-4.2%	-14.8%
Operating margin	0.7%	-9.0%	-10.6%	-20.3%
EBT margin	-1.7%	-11.5%	-12.2%	-22.4%
Net margin	-1.8%	-11.5%	-12.3%	-22.4%
Current ratio	1.8	1.3	1.1	0.9
Inventory turnover	4.64	4.89	4.25	3.95
Debt to equity ratio	214.7%	206.2%	130.5%	186.6%
Return on equity	-4.8%	-51.3%	-60.8%	-54.7%
Return on assets	-1.3%	-15.5%	-15.3%	-20.1%

Definitions of key ratios

EBITDA = Operating profit-amortisation and depreciation
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 = Revenue/Average inventories*
Debt to equity ratio = Interest-bearing liabilities/Equity
Return on equity (ROE) = Net profit (attributable to parent)/Average equity*
Return on assets (ROA) = Net profit (attributable to parent)/Average total assets*
*Based on 12-month average

SHARE PRICE AND TURNOVER



MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

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

Meelis Milder
Chairman of the Management Board
15 August 2012

Maigi Pärnik-Pernik
Member of the Management Board
15 August 2012

Maire Milder
Member of the Management Board
15 August 2012

Andrew Paterson
Member of the Management Board
15 August 2012

Introduction and photos of Management Board members are available in AS Baltika 2011 Annual Report and on homepage www.baltikagroup.com.

INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the second quarter and six months of 2012 as presented on pages 12-33.

The Management Board confirms that:

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

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

3. the Group is going concern.

Meelis Milder
Chairman of the Management Board
15 August 2012

Maigi Pärnik-Pernik
Member of the Management Board
15 August 2012

Maire Milder
Member of the Management Board
15 August 2012

Andrew Paterson
Member of the Management Board
15 August 2012

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2012	31 Dec 2011
ASSETS			
Current assets			
Cash and bank	3	649	863
Trade and other receivables	4	1,923	2,189
Inventories	5,14	11,501	10,048
Assets held for sale	6	5,029	0
Total current assets		**19,102**	**13,100**
Non-current assets			
Deferred income tax asset		838	838
Other non-current assets	7	716	629
Investment property	8	8,549	8,549
Property, plant and equipment	9	2,330	8,031
Intangible assets	10	3,534	3,665
Total non-current assets		**15,967**	**21,712**
TOTAL ASSETS		**35,069**	**34,812**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	11	3,147	3,178
Trade and other payables	12	7,646	6,785
Total current liabilities		**10,793**	**9,963**
Non-current liabilities			
Borrowings	11	15,550	15,144
Other liabilities	12	32	83
Total non-current liabilities		**15,582**	**15,227**
TOTAL LIABILITIES		**26,375**	**25,190**
EQUITY			
Share capital at par value	13	7,159	25,056
Share premium		0	89
Reserves	13	2,775	2,494
Retained earnings		75	-11,592
Net loss for the period		-472	-5,863
Currency translation differences		-843	-727
Total equity attributable to equity holders of the parent		**8,694**	**9,457**
Non-controlling interest		0	165
TOTAL EQUITY		**8,694**	**9,622**
TOTAL LIABILITIES AND EQUITY		**35,069**	**34,812**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q2 2012	Q2 2011	6M 2012	6M 2011
Revenue	14,15	13,157	12,642	25,800	24,413
Cost of goods sold	16	-5,412	-5,327	-11,600	-11,207
Gross profit		**7,745**	**7,315**	**14,200**	**13,206**
Distribution costs	17	-6,235	-6,535	-12,819	-13,563
Administrative and general expenses	18	-684	-751	-1,368	-1,494
Other operating income	19	156	-3	189	3
Other operating expenses	20	-15	-125	-25	-346
Operating profit (loss)		**967**	**-99**	**177**	**-2,194**
Finance income	21	-90	-6	17	15
Finance costs	21	-292	-332	-634	-619
Profit (loss) before income tax		**585**	**-438**	**-440**	**-2,798**
Income tax expense		-13	-7	-31	-10
Net profit (loss)		**572**	**-444**	**-471**	**-2,808**
Profit (loss) attributable to:					
Equity holders of the parent company		572	-444	-472	-2,808
Non-controlling interest		0	0	1	0
Other comprehensive income (loss)					
Currency translation differences		-194	74	-116	206
Total comprehensive income (loss)		**378**	**-370**	**-587**	**-2,602**
Comprehensive income (loss) attributable to:					
Equity holders of the parent company		378	-370	-588	-2,602
Non-controlling interest		0	0	1	0
Basic earnings per share, EUR	22	0.02	-0.02	-0.01	-0.10
Diluted earnings per share, EUR	22	0.02	-0.02	-0.01	-0.10

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CONSOLIDATED CASH FLOW STATEMENT

	Note	Q2 2012	Q2 2011	6M 2012	6M 2011
Operating activities					
Operating profit (loss)		967	-100	177	-2,194
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	16-18	439	604	944	1,271
Loss from disposal of PPE		-4	-4	-8	-3
Other non-monetary expenses		-169	119	-123	269
Changes in working capital:					
Change in trade and other receivables	4	-58	146	198	139
Change in inventories	5	-2,351	-2,677	-1,454	-2,083
Change in trade and other payables	12	2,041	1,918	805	2,678
Interest paid		-267	-299	-551	-593
Income tax paid		-10	-9	-56	-129
Net cash generated from operating activities		**588**	**-302**	**-68**	**-645**
Investing activities					
Acquisition of property, plant and equipment, intangibles	9,10	-62	-18	-118	-45
Proceeds from disposal of property, plant and equipment		5	2	11	2
Acquisition of non-controlling interest		-91	0	-91	0
Net cash used in investing activities		**-148**	**-16**	**-198**	**-43**
Financing activities					
Received borrowings	11	0	1,100	0	1,193
Repayments of borrowings	11	-158	-376	-315	-660
Change in bank overdraft	11	-282	2	242	35
Repayments of finance lease and other liabilities		-37	-63	-79	-114
Proceeds from issue of bonds		204	0	204	0
Redemption of bonds		0	0	0	-1
Net cash generated from financing activities		**-273**	**663**	**52**	**453**
Effect of exchange gains (losses) on cash and cash equivalents		0	-5	0	14
Total cash flows		**167**	**340**	**-214**	**-221**
Cash and cash equivalents at the beginning of the period	3	**482**	**262**	**863**	**823**
Cash and cash equivalents at the end of the period	3	**649**	**602**	**649**	**602**
Change in cash and cash equivalents		**167**	**340**	**-214**	**-221**

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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	Non-controlling interest	Total equity
Balance as at 31 December 2010	**20,129**	**1,332**	**2,784**	**-11,305**	**-747**	**12,194**	**162**	**12,356**
Loss for the period	0	0	0	-2,808	0	-2,808	0	-2,808
Other comprehensive income (loss)	0	0	0	0	206	206	0	206
Total comprehensive income (loss)	0	0	0	-2,808	206	-2,602	0	-2,602
Equity-settled share-based transactions	0	67	0	0	0	67	0	67
Increase of share capital	1,917	-1,377	-540	0	0	0	0	0
Balance as at 30 June 2011	**22,046**	**22**	**2,244**	**-14,113**	**-540**	**9,659**	**162**	**9,821**
Balance as at 31 December 2011	**25,056**	**89**	**2,494**	**-17,455**	**-727**	**9,457**	**165**	**9,622**
Loss for the period	0	0	0	-472	0	-472	1	-471
Other comprehensive loss	0	0	0	0	-116	-116	0	-116
Total comprehensive loss	0	0	0	-472	-116	-588	1	-587
Allocation of retained earnings	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 instrument classification to liability (Note 13)	0	0	-250	0	0	-250	0	-250
Acquisition of non-controlling interest	0	0	0	75	0	75	-166	-91
Balance as at 30 June 2012	**7,159**	**0**	**2,775**	**-397**	**-843**	**8,694**	**0**	**8,694**

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 four concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. AS Baltika's shares are listed on the Tallinn Stock Exchange. The largest shareholder and the only company holding above 20% of shares (Note 13) of AS Baltika is KJK Fund Sicaf-SIF (on ING Luxembourg S.A. account).

The Group's condensed consolidated interim report for the six months ended 30 June 2012 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 2011, 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 2011. New and revised standards and interpretations effective from 1 January 2012 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

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

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

NOTE 2 Financial risks

In its daily activities, the Group is exposed to different types of risk management, which is an important and integral part of the business activities of the 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. Due to the macroeconomic environment and Group´s situation the management of the Group's Parent company considers all the risks as significant risks for the Group.

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

Market risk

Foreign exchange risk

Sales in foreign currencies constitute 65% (2011 6 months: 67%) of the revenues of the Group and are denominated in LTL (Lithuanian lit), LVL (Latvian lat), UAH (Ukrainian hryvnia), RUB (Russian rouble) and also PLN (Polish zloty) in 2011, for the foreign subsidiaries of the Group. The majority of raw materials used in production is acquired from countries located outside of European Union. The major foreign currency for purchases is USD (US dollar).

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

The Group's results are open to fluctuations in foreign currency rates against euro in those countries where AS Baltika has subsidiaries. The changes in average foreign currency rates against euro in the reporting period were the following: Russian rouble +1.06% (2011: -0.70%), Ukrainian hryvnia +7.14% (2011: -5.71%), Polish zloty -7.42% (2011: +1.07%) and Latvian lat +1.23% (2011: +0.18%). The Lithuanian lit is pegged to the euro. The change in average rate of US dollar in the reporting period was +7.60% (2012: -5.86%).

Foreign exchange risk arises from cash and bank (Note 3), trade receivables (Note 4) and trade payables (Note 12).

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 2012 and 2011. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group, except in the case of devaluation. If feasible, foreign currencies collected are used for the settling of liabilities measured in the same currency. Additionally the Group uses the option to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

Interest rate risk

As the Group's cash and cash equivalents carry fixed interest rate 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 current and non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. There is no fair value interest rate risk as the Group has no interest bearing financial instruments, which are recognised at fair value. Interest rate risk is primarily caused by the potential fluctuations of Euribor and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

All non-current borrowings at 30 June 2012 and 31 December 2011 were subject to a floating interest rate based on Euribor, which is fixed every one or six months. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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

Price risk

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

Credit risk

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

Cash and cash equivalents

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

Trade receivables

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

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At 30 June 2012 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 7) amounted 756 thousand euros (31 December 2011: 795 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. If the volume of financing between banks reduces significantly, it may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Management monitors the sufficiency of cash and cash equivalents to settle the liabilities and finance the Group's strategic goals on a regular basis using rolling cash forecasts.

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

Financial liabilities by maturity at 30 June 2012

		Undiscounted cash flows[1]			
	Carrying amount	**1-6 months**	**7 months - 1 year**	**1-5 years**	**Total**
Loans (Note 11)[2]	17,100	2,230	1,785	14,961	18,976
Finance lease liabilities (Note 11)	67	43	14	13	70
Bonds (Note 11)	1,530	6	0	1,524	1,530
Trade payables (Note 12)	5,085	5,085	0	0	5,085
Other financial liabilities (Note 11,12)[3]	112	112	0	0	112
Total	**23,894**	**7,476**	**1,799**	**16,498**	**25,773**

Financial liabilities by maturity at 31 December 2011

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (Note 11)[2]	18,166	4,195	16,627	20,822
Finance lease liabilities (Note 11)	146	126	28	154
Bonds (Note 11)	10	10	0	10
Trade payables (Note 12)	3,945	3,945	0	3,945
Other financial liabilities (Note 11,12)[3]	119	119	0	119
Total	**22,386**	**8,395**	**16,655**	**25,050**

[1]For interest bearing borrowings carrying floating interest rate based on Euribor, the last applied spot rate to loans has been used.
[2]Overdraft facilities are shown under loans payable within 1-5 years based on the contractual date of payment.
[3]Other financial liabilities include accrued interest in the amount of 29 thousand euros (31 December 2011: 21 thousand euros) and accrued expenses in amount of 83 thousand euros (31 December 2011: 98 thousand euros).

Operational risk

The Group's operations are mostly affected by the cyclical nature of economies in target markets and changes in competitive positions, as well as risks related to specific markets (especially non-European Union markets – Russia and Ukraine).

To manage the risks, the Group attempts to increase the flexibility of its operations: the sales volumes and the activities of competitors are also being monitored and if necessary, the Group makes adjustments in price levels, marketing activities and collections offered. In addition to central gathering and assessment of information, an important role in analysing and planning actions is played by a market organisation in each target market enabling the Group to obtain fast and direct feedback on market developments on one hand and adequately consider local conditions on the other.

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

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

To ensure good collections, the Group employs a strong team of designers who monitor and are aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have been set up at the Group which help daily monitoring of sales and balance of inventories and using the information in subsequent activities. In order to avoid supply problems, cooperation with the world’s leading procurement intermediaries as well as fabric manufacturers has been expanded.

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

Capital risk management

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

Consistent with industry practice, the Group monitors capital on the basis of the capital to net debt ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated statement of financial position and net debt. The Group’s strategy is to achieve the capital to net debt ratio within the range of 30% to 35% but due to macroeconomic and Group´s situation it was not achieved in 2012 and 2011. The capital to net debt ratio was influenced mostly by the earned comprehensive loss.

Capital to net debt ratio of the Group

	30 June 2012	**31 Dec 2011**
Total interest carrying borrowings (Note 11)	18 667	18 312
Cash and bank (Note 3)	-649	-863
Net debt	18 018	17 449
Total equity	8 694	9 622
Total capital	26 712	27 071
Total capital to net debt ratio	**67%**	**64%**

Fair value

The Group estimates that the fair values of the assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying amounts presented in the Group’s consolidated balance sheet at 30 June 2012 and 31 December 2011. As the Group’s long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. Therefore, management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The carrying amount less an impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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NOTE 3 Cash and bank

	30 June 2012	31 Dec 2011
Cash in hand	248	391
Cash at bank and overnight deposits	401	472
Total	**649**	**863**

Cash and bank by currency

	30 June 2012	31 Dec 2011
RUB (Russian rouble)	201	277
EUR (euro)	179	221
LTL (Lithuanian lit)	105	162
UAH (Ukrainian hryvnia)	96	155
LVL (Latvian lat)	56	46
PLN (Polish zloty)	12	2
Total	**649**	**863**

NOTE 4 Trade and other receivables

	30 June 2012	31 Dec 2011
Trade receivables, net	430	533
Other prepaid expenses	962	881
Tax prepayments and tax reclaims, thereof	485	675
Value added tax	397	656
Prepaid income tax	15	14
Other taxes	73	5
Other current receivables	46	100
Total	**1,923**	**2,189**

Information about the receivables from related parties is in Note 23.

Trade receivables

	30 June 2012	31 Dec 2011
Trade receivables, gross	1,045	1,203
Allowance for impairment of trade receivables	-615	-670
Trade receivables, net	**430**	**533**

Trade receivables (net) by due date

	30 June 2012	31 Dec 2011
Not due	361	463
Up to 1 month past due	25	35
1-3 months past due	22	23
3-6 months past due	21	3
Over 6 months past due	1	9
Total	**430**	**533**

Trade receivables (net) in denominated currency

	30 June 2012	31 Dec 2011
EUR (euro)	269	358
LVL (Latvian lat)	69	90
RUB (Russian rouble)	43	49
LTL (Lithuanian lit)	28	36
UAH (Ukrainian hryvnia)	21	0
Total	**430**	**533**

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NOTE 5 Inventories

	30 June 2012	31 Dec 2011
Fabrics and accessories	2,060	1,487
Allowance for impairment of fabrics and accessories	-13	-13
Work-in-progress	62	62
Finished goods and goods purchased for resale	8,942	8,798
Allowance for impairment of finished goods and goods purchased for resale	-100	-450
Prepayments to suppliers	550	164
Total	**11,501**	**10,048**

The allowance for finished goods and goods purchased for sale as at 30 June 2012 compared to previous balance sheet date has decreased as the sales discounts were much steeper in the first half of the year than expected in the second half. In addition, a greater allowance was made in the end of last year, because of the high final discount sales in the beginning of 2012 in the now closed stores.

NOTE 6 Assets held for sale

As at 30 June 2012 Management Board was actively engaged in selling the property located at Veerenni 24, Tallinn. Therefore the property that was in the use of the Group, is classified as held for sale in the amount of 5,029 thousand euros. The rest of property is classified as investment property (Note 8).

Additional information is presented in Note 25.

NOTE 7 Other non-current assets

	30 June 2012	31 Dec 2011
Non-current lease prepayments	390	367
Other long-term receivables	326	262
Total	**716**	**629**

NOTE 8 Investment property

	2012	2011
Balance as at 1 January	**8,549**	**7,069**
Balance as at 30 June	**8,549**	**7,069**

Investment property consists of 4,500 square metres of land and two office buildings, located at 24 Veerenni in Tallinn, Estonia. Real estate properties that were occupied by Group are recorded as assets held for sale (Note 6).

Detailed information concerning the sale of the property is presented in Note 25. With the sale of the estate the Group will exit real estate business, which is a monitored operating segment of the Group (Note 14).

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NOTE 9 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Pre-payments	Total
31 December 2010						
Acquisition cost	**11,607**	**5,861**	**6,979**	**19**	**13**	**24,478**
Accumulated depreciation	-3,005	-4,445	-4,908	0	0	-12,357
Net book amount	**8,602**	**1,416**	**2,071**	**19**	**13**	**12,121**
Additions	14	22	2	0	2	40
Disposals	-19	4	16	-3	0	-2
Reclassifications to inventory	0	-10	-3	0	0	-13
Reclassification	10	2	-3	-8	-1	0
Depreciation	-385	-237	-482	0	0	-1,104
Currency translation differences	-11	5	-2	-1	-3	-12
30 June 2011						
Acquisition cost	**11,595**	**5,838**	**6,893**	**7**	**11**	**24,344**
Accumulated depreciation	-3,384	-4,636	-5,294	0	0	-13,314
Net book amount	**8,211**	**1,202**	**1,599**	**7**	**11**	**11,030**
31 December 2011						
Acquisition cost	**9,231**	**5,633**	**6,691**	**0**	**0**	**21,555**
Accumulated depreciation	-3,360	-4,655	-5,509	0	0	-13,524
Net book amount	**5,871**	**978**	**1,182**	**0**	**0**	**8,031**
Additions	23	22	67	6	0	118
Reclassifications from inventories	0	0	6	0	0	6
Disposals	0	0	-3	0	0	-3
Reclassifications to inventories	0	0	-7	0	0	-7
Reclassifications to held for sale	-5,029	0	0	0	0	-5,029
Reclassification	-15	4	17	-6	0	0
Depreciation	-291	-203	-309	0	0	-803
Currency translation differences	5	5	7	0	0	17
30 June 2012						
Acquisition cost	**3,731**	**5,552**	**6,743**	**0**	**0**	**16,026**
Accumulated depreciation	-3,167	-4,746	-5,783	0	0	-13,696
Net book amount	**564**	**806**	**960**	**0**	**0**	**2,330**

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NOTE 10 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
31 December 2010					
Acquisition cost	**2,774**	**643**	**23**	**2,048**	**5,488**
Accumulated depreciation	-1,451	-139	0	0	-1,590
Net book amount	**1,323**	**504**	**23**	**2,048**	**3,898**
Additions	5	0	0	0	5
Disposals	-1	0	0	0	-1
Reclassification	13	0	-13	0	0
Amortisation	-151	-16	0	0	-167
Currency translation differences	-1	0	0	17	16
30 June 2011					
Acquisition cost	**2,830**	**643**	**10**	**2,065**	**5,548**
Accumulated depreciation	-1,642	-155	0	0	-1,797
Net book amount	**1,188**	**488**	**10**	**2,065**	**3,751**
31 December 2011					
Acquisition cost	**2,187**	**643**	**10**	**2,218**	**5,058**
Accumulated depreciation	-1,222	-171	0	0	-1,393
Net book amount	**965**	**472**	**10**	**2,218**	**3,665**
Amortisation	-132	-17	0	0	-149
Currency translation differences	1	0	0	17	18
30 June 2012					
Acquisition cost	**2,176**	**643**	**10**	**2,235**	**5,064**
Accumulated depreciation	-1,342	-188	0	0	-1,530
Net book amount	**834**	**455**	**10**	**2,235**	**3,534**

NOTE 11 Borrowings

	30 June 2012	31 Dec 2011
Current borrowings		
Current portion of non-current bank loans	3,086	2,047
Current portion of finance lease liabilities	55	121
Other current loans (Note 23)	0	1,000
Convertible bonds (Note 23)	6	10
Total	**3,147**	**3,178**
Non-current borrowings		
Non-current bank loans	14,014	15,119
Non-current finance lease liabilities	12	25
Convertible bonds (Note 23)	1,524	0
Other non-current liabilities	0	0
Total borrowings	**18,697**	**18,322**

In May this year AS Baltika 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 (liabilities in the amount of 1,046 thousand euros arising from the loan agreement signed in December 2011 and liabilities in the amount of 250 thousand euros arising from the loan agreement signed in November 2011, previously classified as an equity instrument in reserves). A liability component was recognised at the issuance of the bonds, interest rate of the bonds is comparable with market interest rate. Detailed information about the convertible bonds can be found in Note 23.

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During the reporting period, the Group made loan repayments in the amount of 315 thousand euros (2011: 660 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 593 thousand euros (2011: 618 thousand euros), including 16 thousand euros interest expense from convertible bonds. The used limit of the Group´s overdraft facilities with the banks as at 30 June 2012 amounted to 624 thousand euros (31 December 2011: 382 thousand euros).

Interest carrying loans and bonds of the Group as at 30 June 2012

	Carrying amount	Average risk premium
Borrowings at floating interest rate (based on 1-month and 6-month Euribor)	17,100	EURIBOR+4,63%
H-bonds (Note 23)	1,500	7.50%
Total	**18,600**	

Interest carrying loans of the Group as at 31 December 2011

	Carrying amount	Average interest rate
Borrowings at floating interest rate (based on 1-month and 6-month Euribor)	17,166	EURIBOR+4.60%
Borrowings at fixed interest rate (Note 23)	1,000	10.00%
Total	**18,166**	

NOTE 12 Trade and other payables

	30 June 2012	31 Dec 2011
Current liabilities		
Trade payables	5,085	3,945
Tax liabilities, thereof	1,204	1,567
Personal income tax	183	177
Social security taxes and unemployment insurance premium	462	443
Value added tax	518	849
Corporate income tax liability	25	51
Other taxes	16	47
Payables to employees[1]	999	921
Other accrued expenses[2]	112	119
Customer prepayments	23	26
Other current payables	223	207
Total	**7,646**	**6,785**
Non-current liabilities		
Other liabilities[3]	32	83

[1]Payables to employees consist of accrued wages, salaries and vacation accrual.
[2]Accrued expenses include interest payable in the amount of 29 thousand euros (31 December 2011: 21 thousand euros).
[3]Other non-current liabilities consist mostly of deferred income.

Information about the liabilities to related parties is in Note 23.

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Trade payables and other accrues expenses in denominated currency

	30 June 2012	31 Dec 2011
EUR (euro)	2,944	2,486
USD (US dollar)	1,931	1,270
RUB (Russian rouble)	84	53
PLN (Polish zloty)	82	95
LVL (Latvian lat)	57	56
LTL (Lithuanian lit)	54	75
Other currencies	45	29
Total	**5,197**	**4,064**

NOTE 13 Equity

Share capital and reserves

	30 June 2012	31 Dec 2011
Share capital	7,159	25,056
Number of shares (pcs)	35,794,850	35,794,850
Nominal value of share (EUR)	0.20	0.70
Statutory reserve	1,182	652
Revaluation surplus	1,593	1,592
Other reserves (Note 23)	0	250

At the balance-sheet date, 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.

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.

On 20 April 2012 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 this year an agreement with a related party was signed, according to which the equity instrument (loan carrying no interest) was offset with convertible bonds (Note 11, 23).

Change in the number of shares

	Issue	Number of shares
Number of shares as at 31 Dec 2010, thereof		**31,494,850**
Ordinary shares		27,494,850
Preference shares		4,000,000
Cancelled at 31 May 2011	Cancelling of preference shares	-4,000,000
Issued at 31 May 2011	Issue of ordinary shares	4,000,000
Issued at 3 August 2011	Issue of ordinary shares	4,300,000
Number of shares as at 31 Dec 2011		**35,794,850**
Number of shares as at 30 June 2012		**35,794,850**

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Shareholders as at 30 June 2012

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. Clearstream Banking Luxembourg S.A. clients	6,377,385	17.82%
3. BMIG OÜ*	4,750,033	13.27%
4. Skandinaviska Enskilda Banken Ab clients	3,581,060	10.00%
5. Svenska Handelsbanken clients	1,765,000	4.93%
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	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.80%
7. Other shareholders	9,649,317	26.96%
Total	**35,794,850**	**100.00%**

Shareholders as at 31 December 2011

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. E. Miroglio S.A.	4,968,330	13.88%
3. BMIG OÜ*	4,750,033	13.27%
4. Skandinaviska Enskilda Banken Ab clients	3,591,060	10.03%
5. Svenska Handelsbanken clients	1,895,000	5.29%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	726,336	2.03%
Maire Milder	316,083	0.88%
Andrew Paterson	11,000	0.03%
Persons related to members of Management	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	977,837	2.73%
7. Other shareholders	10,960,157	30.63%
Total	**35,794,850**	**100.00%**

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

The 35,794,850 ordinary shares of the Parent company are listed on the Tallinn Stock Exchange. The Parent company does not have a controlling shareholder or any shareholders jointly controlling the entity.

NOTE 14 Segments

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

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

- Baltic region consists of operations in Estonia, Latvia and Lithuania;
- Eastern European region consists of operations in Russia and Ukraine;
- Central European region consists of operations in Poland (Baltika Poland Sp.z.o.o. ended its business activities in 2011).

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

The segment information provided to the Management Board for the reportable segments for the period ended at 30 June 2012 and at 30 June 2011 is as follows

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total
6M 2012 and as at 30 June 2012						
Revenue (from external customers)	16,003	7,905	0	1,547	345	25,800
Segment profit (loss)[2]	2,959	-324	0	461	321	3,417
Incl. depreciation and amortisation	-410	-216	0	0	0	-626
Inventories of segments	3,216	1,650	0	0	0	4,866
6M 2011 and as at 30 June 2011						
Revenue (from external customers)	14,187	8,055	605	1,341	225	24,413
Segment profit (loss)[2]	1,917	-459	-128	396	202	1,928
Incl. depreciation and amortisation	-521	-361	-57	0	0	-939
Inventories of segments	3,006	1,908	112	0	0	5,026

[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. Due to change in management reporting how the expenses are allocated, the comparative numbers of 2011 second quarter segment operating profit (loss) were changed accordingly.

Reconciliation of segment profit to consolidated operating profit

	Q2 2012	Q2 2011	6M 2012	6M 2011
Total segment profit	2,745	2,075	3,417	1,928
Unallocated expenses[1]:				
Costs of goods sold and distribution costs	-1,235	-1,295	-2,036	-2,285
Administrative and general expenses	-684	-751	-1,368	-1,494
Other operating income (expenses), net	141	-128	164	-343
Operating profit (loss)	**967**	**-99**	**177**	**-2,194**

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

Reconciliation of segment inventories to consolidated inventories

	30 June 2012	31 Dec 2011	30 June 2011
Total inventories of segments	4,866	5,707	5,026
Inventories in Parent company and production companies	6,635	4,341	7,861
Inventories on statement of financial position	**11,501**	**10,048**	**12,887**

In July 2012 AS Baltika signed a property sale-agreement, which results in the Group exiting real-estate business, more detailed info in Notes 8 and 25.

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NOTE 15 Revenue

	Q2 2012	Q2 2011	6M 2012	6M 2011
Sale of goods	12,946	12,513	25,323	24,113
Lease revenue	176	115	344	225
Sale of sewing services	12	6	89	60
Other	23	8	44	15
Total	**13,157**	**12,642**	**25,800**	**24,413**

NOTE 16 Cost of goods sold

	Q2 2012	Q2 2011	6M 2012	6M 2011
Materials and supplies	4,391	4,327	9,994	9,415
Payroll costs in production	623	688	1,330	1,475
Operating lease expenses	158	170	316	341
Other production costs	89	85	205	181
Depreciation of assets used in production (Note 9,10)	51	57	105	115
Change in allowance for inventories	100	0	-350	-320
Total	**5,412**	**5,327**	**11,600**	**11,207**

NOTE 17 Distribution costs

	Q2 2012	Q2 2011	6M 2012	6M 2011
Operating lease expenses	2,446	2,492	4,943	5,260
Payroll costs	2,394	2,539	4,790	4,980
Depreciation and amortisation (Note 9,10)	319	471	692	962
Advertising expenses	281	270	552	581
Fuel, heating and electricity costs	148	174	344	364
Fees for card payments	96	95	187	180
Consultation and management fees	50	84	157	174
Municipal services and security expenses	70	65	144	136
Freight costs	49	59	110	121
Travel expenses	42	43	110	91
Information technology expenses	38	44	95	107
Renovation expenses of retail outlets	36	14	75	48
Communication expenses	36	40	69	85
Bank fees	19	23	39	50
Packaging costs	21	24	38	45
Training expenses	2	14	25	28
Expenses for uniforms	11	7	12	8
Other sales expenses[1]	177	77	437	343
Total	**6,235**	**6,535**	**12,819**	**13,563**

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

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NOTE 18 Administrative and general expenses

	Q2 2012	Q2 2011	6M 2012	6M 2011
Payroll costs[1]	320	339	623	671
Depreciation and amortisation (Note 9,10)	69	93	147	188
Bank fees	58	54	130	128
Information technology expenses	54	68	120	132
Sponsorship, gifts, donations	43	8	50	17
Fuel, heating and electricity expenses	18	20	44	47
Training expenses	11	26	17	39
Management and consulting fees	11	6	15	13
Operating lease expenses	6	11	13	24
Communication expenses	5	10	10	20
Municipal services and security expenses	5	8	10	13
Travel expenses	3	3	4	6
Other administrative expenses[2]	81	105	185	196
Total	**684**	**751**	**1,368**	**1,494**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount 67 thousand euros in 2011 first half.
[2]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting, management, consulting and other services.

NOTE 19 Other operating income

	Q2 2012	Q2 2011	6M 2012	6M 2011
Foreign exchange income	123	0	148	0
Gain from sale of non-current assets	4	2	8	2
Realization of impaired assets in previous periods	29	0	32	0
Other operating income	0	-5	1	1
Total	**156**	**-3**	**189**	**3**

NOTE 20 Other operating expenses

	Q2 2012	Q2 2011	6M 2012	6M 2011
Foreign exchange losses	0	93	0	282
Membership fees	1	1	4	3
Fines, penalties and tax interest	0	4	5	20
Representation costs	2	1	3	2
Other operating expenses	12	26	13	39
Total	**15**	**125**	**25**	**346**

Other operating expenses include 12 thousand euros of tax expense

NOTE 21 Finance income and costs

	Q2 2012	Q2 2011	6M 2012	6M 2011
Interest costs	-288	-332	-593	-618
Foreign exchange income (losses)	-90	-6	17	14
Other finance income	0	0	0	1
Other finance costs	-4	0	-41	-1
Total	**-382**	**-338**	**-617**	**-604**

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NOTE 22 Earnings per share

		Q2 2012	Q2 2011	6M 2012	6M 2011
Weighted average number of shares	pcs	35,794,850	28,872,628	35,794,850	28,179,933
Net profit (loss) attributable to equity holders of the parent		572	-444	-472	-2,808
Basic earnings (loss) per share	EUR	**0.02**	**-0.02**	**-0.01**	**-0.10**
Diluted earnings (loss) per share	EUR	**0.02**	**-0.02**	**-0.01**	**-0.10**

The Group had no dilutive potential ordinary shares as at 30 June 2012 and 31 December 2011, therefore diluted earnings per share equal basic earnings per share.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in six months of 2012 was 0.36 euros (2011: 1,14 euros).

NOTE 23 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 either significant influence or control, generally implying an ownership interest of 20% or more (Note 13);
- members of the Management Board and the Supervisory Council;
- close family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Council.

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

Transactions with related parties

	Q2 2012		Q2 2011		6M 2012		6M 2011	
	Purchases	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**
Goods	1	8	169	0	1	8	289	0
Services	69	0	55	0	119	0	110	0
Total	**70**	**8**	**224**	**0**	**120**	**8**	**399**	**0**

In 2012 AS Baltika bought mostly management, communication and other services, in 2011 AS Baltika purchased materials for production, also has bought management and other services.

Balances with related parties

	30 June 2012	31 Dec 2011
Other receivables (Note 4)	14	0
Receivables from related parties total	**14**	**0**

	30 June 2012	31 Dec 2011
Other current loans and interests (Note 11, 12)	1,535	1,003
Trade payables (Note 12)	94	233
Balance from issuance of equity instrument (Note 13)	0	250
Payables to related parties total	**1,629**	**1,486**

All transactions in 2012 as well as in 2011 and balances with related parties as at 30 June 2012 and 31 December 2011 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 30 June 2012 the balances from borrowings, interests are partly with counterparty, who is also an owner that has significant influence. As at 31 December 2011 the balances from borrowings, interests and issuance of equity instrument are with counterparty, who is also an owner that has significant influence.

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Compensation for the members of the Management Board and Supervisory Council

	Q2 2012	Q2 2011	6M 2012	6M 2011
Salaries of the members of the Management Board	64	67	123	139
Remuneration of the members of the Supervisory Council	6	7	13	15
Total	**70**	**74**	**136**	**154**

No compensations for terminating Management Board or Supervisory Council status were paid.

As at 30 June 2012 AS Baltika had four members of the Management Board (31 December 2011: four members) and five members of the Supervisory Council (31 December 2011: six members).

The composition of the Supervisory Council is described in Note 26.

Convertible bonds

The annual general meeting held on 18 June 2009 decided that 1,850,000 convertible bonds (G-bonds) with a par value of 0.0064 euros should be issued within the framework of the Group's management incentive program. Each bond entitles its holder to subscribe for one share of the company with a nominal value of 0.70 euros. The share subscription period for G-bonds shall be from 1 July 2012 until 31 December 2012. The share subscription price is 0.77 euros. Totally were subscribed 1,842 500 bonds.

The annual general meeting of shareholders held on 20 April 2012 decided to issue two types of convertible bonds:
- 5,000,000 convertible bonds (H-bond) with the nominal value 0.30 euros. Each bond gives its owner the right to subscribe one share with a nominal value of 0.20 euros. The share subscription price is 0.30 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 11 May 2013 until 10 May 2014. The annual interest of bonds is 7,5%. The mentioned convertible bonds were issued to a related party with significant influence KJK Fund, Sicav-SIF (Note 11, 13);
- 2,350,000 convertible bonds (I-bond) with the nominal value 0.01 euros. Each bond gives its owner the right to subscribe one share of the Company with a nominal value of 0.20 euros. The share subscription price is 0.36 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 01 July 2015 until 31 December 2015. The bonds were issued to the management of Baltika Group companies.

	Issue date	Bond conversion period	Number of convertible bonds 30 June 2012	Number of convertible bonds 31 Dec 2011
G-Bond	30 June 2009	01 July 2012 - 31 Dec 2012	937,500	1,842,500
H-Bond	11 May 2012	11 May 2013 - 10 May 2014	5,000,000	0
I-Bond	30 June 2012	01 July 2015 - 3 Dec 2015	2,350,000	0

NOTE 24 Subsidiaries

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 an agreement for merger for Virulane AS and Baltika AS was signed, date of merger is 01 January 2012.

NOTE 25 Events after the balance sheet date

In line with the plan to exit real operating real estate and focus on its core business, AS Baltika´s subsidiary OÜ Baltika TP signed a sales agreement on 31 July 2012 with AS Kawe Group to divest office buildings and land located at Veerenni 24. The Group will continue to rent the space for its head office and store “Moetänav”.

The amount of this transaction amounts to 13.6 million euros, 13 million euros was settled at the time of signing the agreement and 0.6 million within five years.

Proceeds from the sale of the real-estate were used partly to reduce the Group´s borrowings (loan liabilities decreased by 13 million euros). As a result of the transaction Baltika´s investment property and assets held for sale in the amount of 13.6 million euros decreased in full. Short and long term receivables increased by a total of 0.6 million euros. The sale price is equal to the book value of the asset and as such the sale transaction has no significant impact on the income statement.

NOTE 26 Members of Supervisory Council

According to the decision of general meeting of shareholders on 20 April 2012 the new members of the Supervisory Council are: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaako Sakari Mikael Salmelin, Valdo Kalm. The Chairman of the Supervisory Council is Jaako Sakari Mikael Salmelin.

Two members, Allan Remmelkoor and Andres Erm, resigned and one member, Valdo Kalm, joined the Supervisory Council.

Introduction and photos of Supervisory Council members are available on homepage www.baltikagroup.com.