Baltika Group
FASHION SINCE 1928

AS BALTIKA ANNUAL REPORT 2014

AS BALTIKA

2014 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
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E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2014 - 31.12.2014

CONTENTS

BALTIKA GROUP IN BRIEF

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo. In addition Baltika operates under franchise agreement British fashion brand Blue Inc London stores in Baltic countries. Baltika uses a vertically integrated business model that combines collection design, manufacturing, supply chain management, logistics, wholesale and retailing. At the end of 2014 the Group had 128, among which 105 Baltika's retail network stores in the Baltic countries and Russia. Baltika's franchise partners are operating stores in Spain, Ukraine, Belarus and Russia. Baltika's shares are listed on the Tallinn Stock Exchange that is part of the exchange company NASDAQ.

MISSION AND KEY STRATEGIC STRENGTHS

Baltika creates quality fashion that allows people to express themselves and feel great.

- Learning organisation with high targets
- Flexible, vertically integrated business model
- Centralised management with strong retail organisations in the markets
- Brand portfolio covering a broad customer base

KEY FIGURES AND RATIOS

	2014[1]	2013[2]	2013	2012	2011	2010
Profit or loss data, in millions						
Revenue	55.6	51.8	58.3	56.3	53.4	52.2
Gross profit	28.4	27.8	31.2	30.7	28.4	27.0
EBITDA	1.9	2.5	2.3	3.7	-1.4	-1.2
Operating profit	0.7	1.0	0.7	2.0	-4.5	-4.7
Profit before income tax	0.2	0.6	0.3	1.1	-5.8	-5.9
Net profit	0.1	0.4	0.1	0.8	-5.9	-6.3
Other data						
Number of stores in retail	105	106	124	113	115	120
Number of stores total	128	108	126	113	115	120
Retail sales area in the end of period, sqm	20,232	20,444	23,852	22,210	23,111	24,424
Number of employees (31 Dec)	1,228	1,215	1,345	1,288	1,363	1,419
Sales activity key figures						
Revenue growth	7.3%	4.7%	3.6%	5.5%	2.3%	-7.2%
Retail sales growth	3.8%	4.7%	3.6%	5.2%	5.2%	-5.9%
Share of retail sales in revenue	90%	93%	94%	93%	94%	93%
Share of exports in revenue	64%	62%	66%	68%	70%	73%
Gross margin	51.0%	53.6%	53.5%	54.5%	53.1%	51.8%
Operating margin	1.2%	1.9%	1.1%	3.5%	-8.3%	-9.0%
EBT margin	0.3%	1.2%	0.5%	1.9%	-10.8%	-11.3%
Net margin	0.1%	0.9%	0.2%	1.4%	-11.0%	-12.2%
Inventory turnover	2.03	1.99	2.09	2.37	2.13	2.30
Financial position data, in millions[3]						
Total assets	23.1	24.3	24.3	23.5	34.8	39.5
Interest-carrying liabilities	7.3	5.3	5.3	6.3	18.3	19.8
Shareholders' equity	8.7	11.5	11.5	10.2	9.6	12.4
Current ratio	1.6	1.5	1.5	1.8	1.3	1.6
Debt to equity ratio	83.0%	46.1%	46.1%	61.6%	190.3%	160.4%
Net gearing ratio	74.9%	38.7%	38.7%	41.2%	181.3%	153.8%
ROE	-13.4%	1.0%	1.0%	8.9%	-54.8%	-52.6%
ROA	-5.4%	0.4%	0.4%	2.8%	-15.1%	-14.9%

	2014[1]	2013[2]	2013	2012	2011	2010
Key share data, EUR[3]						
Number of shares outstanding (31 Dec)	40,794,850	40,794,850	40,794,850	35,794,850	35,794,850	27,494,850
Weighted average number of shares	40,794,850	38,644,165	38,644,165	35,794,850	31,629,918	23,348,686
Share price (31 Dec)	0.46	0.55	0.55	0.57	0.30	1.14
Market capitalisation, in millions (31 Dec)	18.8	22.3	22.3	20.5	10.7	31.3
Earnings per share (EPS)	-0.03	0.00	0.00	0.02	-0.19	-0.27
Diluted earnings per share (DPS)	-0.03	0.00	0.00	0.02	-0.19	-0.27
Change in EPS, %	-1278%	0%	-87%	111%	32%	50%
P/E	-14.9	208.2	208.2	28.7	Neg.	Neg.
Book value per share	0.21	0.28	0.28	0.28	0.27	0.45
P/B	2.2	1.9	1.9	2.1	1.1	2.5
Dividend per preference share	0	0	0	0	0	0
Interest rate	0%	0%	0%	0%	10%**	10%**
Preference share dividend payout ratio	0%	0%	0%	0%	Neg.	Neg.
Dividend per share	0*	0	0	0	0	0
Dividend yield	0%*	0%	0%	0%	0%	0%
Dividend payout ratio	0%*	0%	0%	0%	0%	0%

*Proposal to the general meeting.
**Preference share dividend per annum

[1]In connection with Baltika's exit from the Ukrainian retail business, the comprehensive income data, other data and sales activity key figures for 2014 are presenting only results of continued operations.
[2]For comparability, the figures for year 2013 have been adjusted accordingly to show numbers from only continued operations.
[3]Financial position data and key share data includes impact of continued and discontinued operations.

Any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Definitions of key figures and ratios

EBITDA= Operating profit-depreciation and amortisation - disposal of fixed assets
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
Inventory turnover = Cost of goods sold/Average inventories[4]
Current ratio = Current assets/Current liabilities
Debt to equity ratio = Interest-carrying liabilities/Equity
Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity
Return on equity = Net profit (attributable to parent)/Average equity[4]
Return on assets = Net profit (attributable to parent)/Average total assets[4]
Market capitalisation = Share price (31 Dec)xNumber of shares outstanding (31 Dec)
EPS = Net profit (attributable to parent)/Weighted average number of shares
DPS = Diluted net profit (attributable to parent)/Weighted average number of shares
P/E = Share price (31 Dec)/EPS
Book value per share = Equity/Number of shares outstanding (31 Dec)
P/B = Share price (31 Dec)/Book value per share
Dividend yield = Dividends per share/Share price (31 Dec)
Dividend payout ratio = Paid out dividends/Net profit (attributable to parent)
[4]Based on 12-month average

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 6 to 32 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Meelis Milder
Chairman of the Management Board
25 March 2015

Maire Milder
Member of the Management Board
25 March 2015

Andrew J. D. Paterson
Member of the Management Board
25 March 2015

Kati Kusmin
Member of the Management Board
25 March 2015

MANAGEMENT REPORT

Net profit of the Group for year 2014 was 1.3 million euros, which includes results from discontinued operations, among others the loss of 1.1 million euros from allowance for assets in Ukraine. Net profit of the continued operations was 0.1 million euros (0.4 million euros in 2013).

Since last year Baltika exited from the Ukrainian retail business—a major line of business for the Group—the 2014 results of the Ukrainian entity are presented as discontinued operation. Therefore the results of the discontinued operation are reported separately from continuing operations unless indicated otherwise, to allow better assessment of the performance of continuing operations. For comparability, the figures of 2013 have been adjusted accordingly.

Yearly retail sales growth in the Baltic countries was 8%. Although with a lower gross profit margin in the first six months of the year, in total the segment profit grew. Retail sales in Russia showed a decrease of 13%, which was foreseeable considering the closing of some unprofitable stores, and the weakening exchange rate of rouble. All in all the Russian results were very volatile by quarters—the weak first quarter was counterbalanced by exceptionally good third quarter. Despite the complicated economic environment and lower gross profit, the segment's loss has decreased compared to previous year, supported by cost savings.

One of the important directions taken—developing other sales channels—has brought good results: wholesale and franchise sales grew by 50% and e-store sales by 77%. Also the profit of these channels has grown.

Due to the launch of new client program in the Baltic countries the client bonus earned for future discounts is recorded as client bonus reserve that reduces both gross profit and net profit. Baltika net profit from continued operations excluding the bonus reserve remained on the same level as the year before.

HIGHLIGHTS OF 2014

- On the 13th of March, Baltika signed a franchise agreement with a Spanish enterprise Mirworld Organization, to open the first Baltika brand stores in Spain in Tenerife. By the end of the year, the franchise partner had opened three brand stores: Monton, Mosaic and Ivo Nikkolo. In January 2015, Baltman and Bastion stores were added.

- In July, a public offering of bonds, decided on the annual general meeting of shareholders held on 28 April 2014, was exercised in full, offering 600 bonds worth 3,000,000 euros. The 3-year bonds carry a 6.5% interest p.a. Each bond will give its owner the right to subscribe 10,000 shares of the Company with the subscription price of 0.50 euros. A total of 691 bonds were subscribed for, which means an oversubscription of 1.15 times. The bonds were issued on the 28th of July, and oversubscribed bonds were cancelled.

- On the 29th of April, 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, Baltika's adviser in Eastern European matters. According to contract signed in 29 April, BRU will continue cooperation with Baltika as a franchise partner for the 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 recognised a receivable from BRU, to be settled following a five-year 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 launched its new bonus program AndMore in the second quarter in Estonia and Lithuania, and in the third quarter in Latvia. The program advantages – doubled return period, personalised offers and discounts, to name a few – can be used in all of the stores of Baltika's six brands.

- E-store expanded in August from solely selling Monton brand to representing all Baltika's brands. The Company's e-store andmorefashion.com, with a new technical solution, provides shopping opportunity for a wider range of customers. By the end of the year, the new bonus program AndMore was in effect in e-store, too. E-channel has an important role also in supporting retail stores sales, providing the pre-shopping environment for clients.

- In the beginning of September, Baltika signed a franchise agreement with a Russian company Gold Button to open Baltika brand stores in Russia. By the end of the year, the partner opened flagship stores in Moscow: Baltman, Ivo Nikkolo, Monton, and Bastion. An additional, outlet store was added in January 2015.

- During the year, a new shop concept was developed for Bastion, the latest brand addition to the Baltika Group. The first new concept store within Baltika's retail network was opened in December in Estonia, at the Ülemiste shopping centre. Shop concepts of all Baltika's brands have now been renewed to ensure international competitiveness for both own and franchise partners' stores.

- Ivo Nikkolo celebrated its 20th anniversary in line with Tallinn Fashion Week with a gala show *Ivo Nikkolo – since 1994*, which also showed unique samples made specifically for the show. The design team created a special collection called *Ivo Nikkolo 1994* for the anniversary celebration, which was also available in stores. The same collection was additionally presented in Riga Fashion Week in November.

- Baltika has been the official sponsor of Estonian Olympic Committee and delegation since 2004, also designing the parade and casual wear for Estonian athletes in Athens, Torino, Beijing, Vancouver, London, and in 2014, Sochi Olympics. Last year Baltika received a Sports and Art Award from the International Olympic Committee for the support of Olympic movement for over 10 years.

- As a result of an annual research conducted by an Estonian recruitment service provider CV Keskus, Baltika was noted as one of 20 most desirable employers in Estonia in 2015.

- As at 31 December 2014 Baltika had 105 stores in its own retail network. During the year the number of stores in retail network of continued operations decreased by only one. Monton, Baltman and Bastion flagship stores were closed in Viru shopping centre in the first half-year and addition to that three other stores were closed during the year in the Baltic countries. In line with the general plan to optimise the retail network in Russia, number of stores has decreased by three to 15. Meanwhile, eight new stores were opened in the Baltic countries.

MEETING THE OBJECTIVES OF 2014

- To strengthen the position on the Baltic market, and to increase revenues

  To strengthen the position on the Baltic market, refurbishments were done in several stores and a new loyal customer bonus program was launched. In 2014, the Baltic sales revenues increased by 8%, i.e. by 3.1 million euros. Gross profit and net profit of the segment have also grown.

- To decrease direct risks related to the Eastern-European segment

  Baltika exited the Ukraine retail business in the end of April. Operating on the Ukrainian market is continued by a partner under a franchise contract. Risks related to wholesale business are lower than sales through own retail channel. Three stores were closed in 2014 in the Russian retail network. Russia's share in the continued operations decreased – 15.5% compared to 18.5% the year before. The activities to reduce risks in Russia continue also in 2015 with optimisation of local retail network, and focussing on operating stores in St. Petersburg, Kaliningrad and Kazan.

- To prioritise other channels, and to vigorously grow sales revenues both through current and new wholesale- and franchise agreements

  Baltika signed its first contract as franchisor in year 2013. By the end of 2014 the number of franchise stores had increased to 23. In the first half-year a contract was signed with Mirworld Organization to open stores in Tenerife, Spain, and in the second half-year with Gold Button to open stores in Russia. The increase of number of stores in franchise network by 21 stores includes those that passed on to a partner in Ukraine, from which ones operating in the end of the year were 14 (3 stores have been suspended). In 2014, the wholesale and franchise revenues increased by 50%, i.e. by 1.7 million euros.

2014 Consolidated Annual Report (in thousands of euros)

- To develop e-commerce, making all Baltika brands available online

  In August, Baltika launched an e-store andmorefashion.com, where five of Baltika's brands are combined: Monton, Mosaic, Ivo Nikkolo, Bastion and Baltman. Sales have significantly grown after the launch: while in the first two quarters sales growth was 41%, the latter two quarters saw a doubled 98% growth.

- To strengthen the financial position

  Additional financing was received through issuance of bonds that was mainly invested in working capital. As at 31 December 2014 short-term financial position has improved, current ratio is 1.6 compared to 1.5 at the end of 2013.

Targets set for 2014 have therefore within the year been fulfilled.

REVENUE

Continued operations

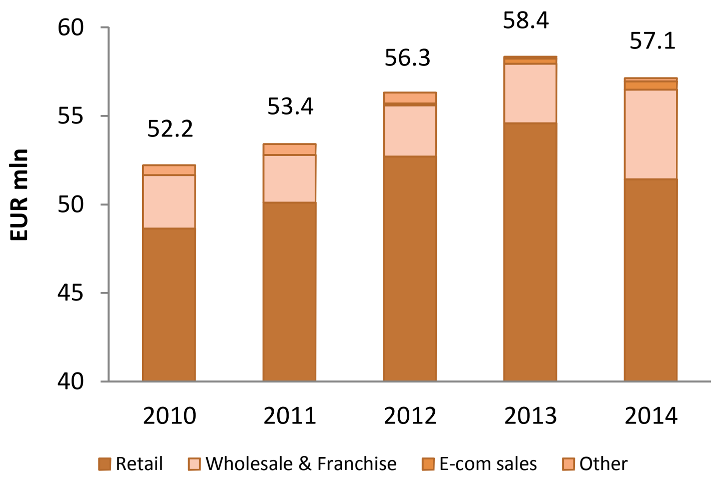
EUR million	2014	2013	+/-
Retail	49.9	48.1	*3.8%*
Wholesale & Franchise	5.0	3.3	*50.3%*
E-com sales	0.5	0.3	*76.6%*
Other	0.2	0.1	*33.6%*
Total	**55.6**	**51.8**	***7.3%***

Revenue including discontinued operations

EUR million	2014	2013	+/-
Retail[1]	51.4	54.6	*-5.8%*
Wholesale & Franchise	5.1	3.4	*50.3%*
E-com sales	0.5	0.3	*76.6%*
Other	0.2	0.1	*33.6%*
Total	**57.1**	**58.4**	***-2.1%***

[1]2014 retail revenue includes Ukrainian market sales from January to April until the sale of entity. Comparative period includes the period in full.

Revenue 2010-2014*



*Revenue total discontinued and continued operations

2014 Consolidated Annual Report (in thousands of euros)

RETAIL

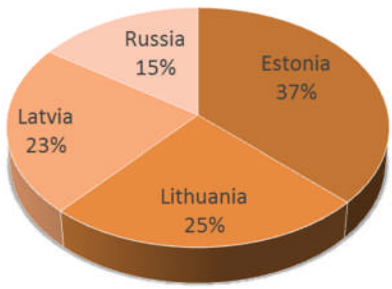
In 2014 retail revenue increased 4% i.e. 1.8 million euros compared to previous year. Latvia showed the highest sales volume growth with 18%. Next was Lithuania with 10%, which had the highest sales area efficiency growth with 8%.

Retail sales by market

EUR million	**2014**	**2013**	**+/-**
Estonia	18.5	18.3	*1%*
Lithuania	12.3	11.1	*10%*
Latvia	11.4	9.7	*18%*
Russia	7.7	8.9	*-13%*
Total	**49.9**	**48.1**	***4%***
Ukraine	1.5	6.5	*-77%*

In Estonia retail sales were strongly impacted by closing Monton, Baltman and Bastion stores in the first half of the year in Tallinn, Viru Center. Sales decrease in Russia is due to reduction in store area. On the other hand sales decreased due to weakened rouble rate against euro. The exchange rate of rouble to euro weakened in year 2014 by 37%. In local currency retail sales in Russia increased by 4% in 2014.

Breakdown of retail sales by market – 2014



Baltika Group's biggest retail market continues to be Estonia. Due to the strategic direction to reduce the part of Eastern-Europe segment, the share of Eastern region sales from Group's total retail has dropped by 3 percentage points compared to previous year – total of 15.5% in 2014 (2013: 18.5%).

Sales efficiency growth in Latvia and Lithuania came mainly through the good efficiency numbers of the largest brand by volume – Monton which showed good numbers through the year, not to mention the great third quarter.

2014 Consolidated Annual Report (in thousands of euros)

Vilnius Akropolis Mosaic new concept store. Photo: Dainius Stankus

In the second half-year of 2014 Lithuanian market prepared for the transition to euro. No problematic issues occurred during transition period with double currency and during switching to euro in the beginning of 2015.

Sales efficiency by market

EUR/m^2	2014	2013	+/-
Estonia	232	234	*-1%*
Lithuania	182	169	*8%*
Latvia	241	228	*6%*
Russia	164	182	*-10%*
Total	**206**	**204**	***1%***

Sales efficiency trends by market

	Q1	Q2	Q3	Q4	2014
Estonia	0%	-2%	4%	-2%	-1%
Lithuania	5%	4%	13%	9%	8%
Latvia	0%	2%	14%	7%	6%
Russia	-25%	-13%	13%	-13%	-10%
Total	**-3%**	**-2%**	**10%**	**1%**	**1%**

STORES AND SALES AREA

At the end of 2014 Group had 128 stores in seven countries with total sales area of 24,077 sqm, among which 105 Baltika's retail network stores and 23 franchise stores. Retail network average operating area increased by 3% with the year. The largest changes in sales area took place in Estonia and in Russia. In Estonia the most relevant shop closings were in the first half of the year, when in Tallinn in Viru Centre Monton, Baltman and Bastion stores were closed. Shop openings in Estonia took place at the end of the year, when renovated Ülemiste Centre in Tallinn was reopened. In year total, shop number in Estonia grew by one. In Russia in 2014 three shops were closed and the ending of retail business outside St. Petersburg, Kaliningrad and Kazan will result in closing of six more stores in 2015.

2014 Consolidated Annual Report (in thousands of euros)

Stores by market

	31 Dec 2014	31 Dec 2013	+/-
Estonia	40	39	1
Lithuania	28	28	0
Latvia	22	21	1
Russia	15	18	-3
Ukraine[1]	14	18	-4
Belarus[2]	2	2	0
Spain[2]	3	0	3
Russia[2]	4	0	4
Total stores	**128**	**126**	**2**
Total sales area, sqm	**24,077**	**24,202**	**-125**

[1]Three franchise shops in Donetsk are currently agreed to be closed for longer term. Operating franchise shops are with total sales area of 2 646 sqm. In comparative figures the named stores are part of the discontinued operations
[2]Franchise stores in Belarus, Spain and Russia are with total sales area of 1,199 sqm

In connection with Baltika's exit from the Ukrainian retail business and reorganisation of retail shops into the franchise stores, also with addition of new franchise partners in Spain in Tenerife and in Russia in Moscow in 2014, the number of Baltika's brand stores in franchise network has grown strongly. When at the beginning of 2014 there were only two shops in Belarus, then at the end of the year there were already 23 operating stores in franchise network.

In 2014 Baltika's own retail network went through technological change in all shops in Baltic states, when switching to the new cash register system and accounting program Directo took place. New system is more user-friendly and in addition to that it offers other extra opportunities to ensure more effective working processes.

Retail network by market and brand, 31 December 2014

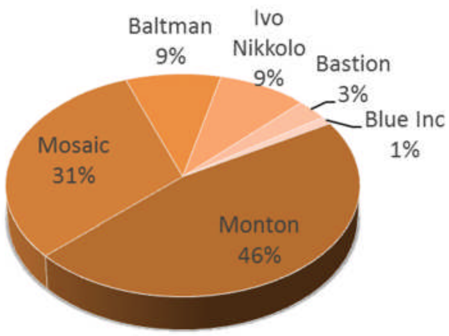
	Estonia	Lithuania	Latvia	Russia	Total	+/- vs 2013
Monton	7	8	6	11	32	6
Mixed brands	2	3	3	1	9	-9
Mosaic	12	9	4	2	27	1
Baltman	4	6	2	0	12	-1
Ivo Nikkolo	5	2	4	0	11	0
Bastion	7	0	1	0	8	1
Blue Inc	2	0	2	0	4	1
Outlet	1	0	0	1	2	0
Total	**40**	**28**	**22**	**15**	**105**	**-1**
m2	6,903	5,650	4,006	3,673	20,232	-209

OVERVIEW OF BRANDS

The largest growth in sales volume in continued operations retail business was made by Monton, which sales revenue increased by 0.7 million euros. The growth rate was biggest in Ivo Nikkolo with 6%. Both Bastion and Mosaic grew by 4%.

In terms of brands, most of Baltika Group retail revenue continues to be contributed by Monton trademark, whose retail sales for 2014 accounted similar to prior year for 46% of total retail sales. The second largest brand is Mosaic with 32%, Baltman's and Ivo Nikkolo's shares are 10% and 9% accordingly. Bastion brand, which was added to the Group in the end of year 2012, makes up 3% and Blue Inc, franchised brand that was added in 2013, makes up 1% of retail revenue in 2014.

Breakdown of retail sales by brand – 2014*



*Revenue includes impact of discontinued operations in period from January till April

Monton

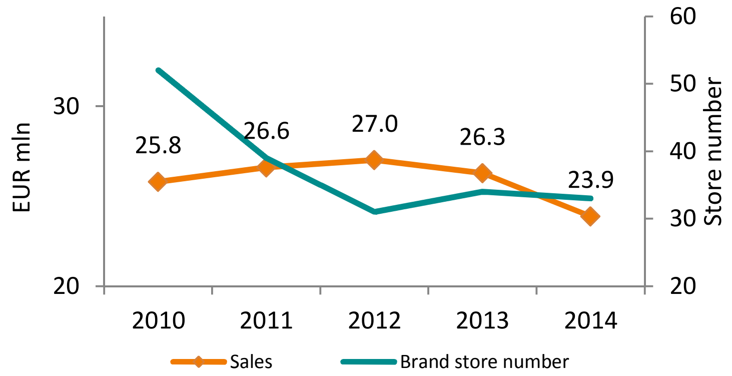
Monton share from continued operations sales was 22.8 million euros in 2014, which is 0.6 million euros more than in 2013 despite the decrease from Russian market. In terms of Baltika's brands, Monton efficiency growth in 2014 was largest. While previously Russia was the biggest market for Monton, then due to the decrease of sales in Russia the new largest market for the brand is Estonia (27%), followed by Russia. Russian market share is expected to decrease further in year 2015, due to sales growth in the Baltic countries and closing of stores in Russia.

Baltika's most youthful brand, had a particularly strong performance in Latvia and Lithuania, growing over 10%. As Russian sales decreased by 13% due to closing of stores and rouble exchange rate, the overall growth for Monton was 3%.

The sales of Spring-Summer season were lower than expected. Ladies wear sales contracted, especially weak were dress sales in the cold and wet summer period, but partly compensated by a strong performance in skirts sales earlier in the season. Menswear fared better than ladies, helped by stronger numbers in knitwear, suits and blazers. The Autumn-Winter season was much better for ladies wear with two-digit growth in gross profit, coming from a stronger collection. Best performing categories were down coats, dresses, skirts and knitwear.

In the beginning of the year Monton received apraise for outfits designed for Estonian delegation for Sochi Olympics. One of the largest sports channels, Fox Sports, chose its favourites and Monton uniforms for Sochi were among the favourites together with uniforms designed by famous fashion houses like Ralph Lauren, Lacoste and others. Baltika and Monton have supported Estonian Olympic Committee and Olympic movement over 10 years and received from International Olympic Committee International Sports and Arts 2014 award for continuous support. Monton has designed the parade and casual wear for Estonian athletes for Athens, Torino, Beijing, Vancouver, London and Sochi Olympics.

Monton retail sales



Revenue total discontinued and continued operations impact

Monton started in 2014 changes in the brand collection creation process in order to able the brand to sell its products also to wholesale and franchise partners in a timeframe convenient for partners.

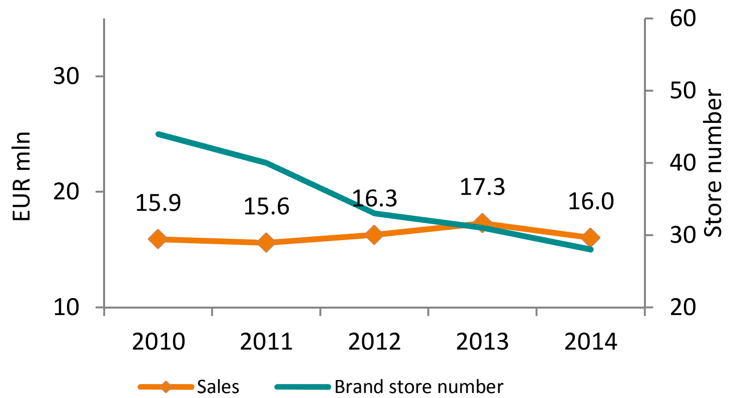
Mosaic

Mosaic retail sales from continued activities in 2014 were 15.6 million euros, that is 4% better result than in prior year. The largest market for Mosaic is still predominantly Estonia, which forms 41% from total brand retail sales from continued operations.

Brand for women and men who appreciate modern classics is Baltika's second largest brand and had a successful year, particularly in the womenswear sector.

As all the Baltic countries had strong sales growth (in Latvia also additional operating area), then despite the decrease in Russian market, total result was a strong 4% increase. Overall womenswear sales growth was higher, at 7%. The year was not as successful for menswear collection, mainly due to decreased sales area in Russia.

Mosaic retail sales



Revenue total discontinued and continued operations impact

In the Spring-Summer season the business was driven by ladies casual garments, especially newly added tops. Autumn-Winter showed continuing customer preference to dresses, compared to blazer and trouser combinations. Skirts performed well and casual tops sales continued to grow. Despite another warm winter the outwear category grew, albeit modestly. While business on down jackets was constrained by problems in the supply chain, casual jackets and wool coats compensated it. Better accessory assortment brought success in the department; sales were up by 14% in the second half-year.

Based on efficiency figures, Mosaic is best received on Latvian market, where the sale per square metre significantly exceeds that of all other markets (approximately 20% higher sales efficiency than the second best, Estonian market).

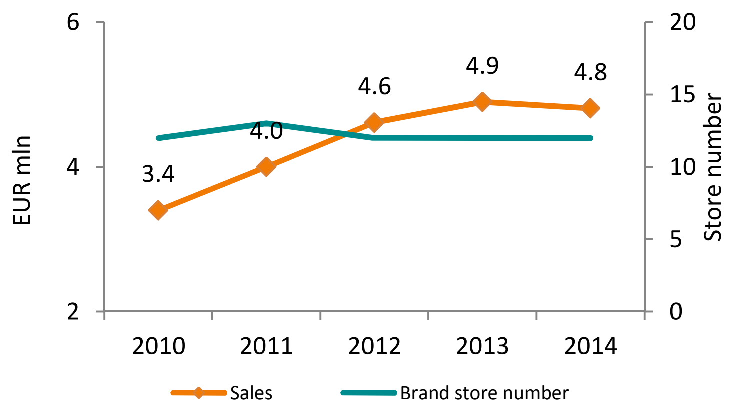
Baltman

Baltman retail sales totalled 4.8 million euros in 2014, which is a decrease of 2% compared to last year. In 2014 sales increased in Lithuania, where in the end of 2013 new store was opened in Vilnius, Akropolis shopping centre.

Brand creating quality menswear has limited distribution; therefore the loss of the highly effective Viru Centre store in Estonia had a significant effect on the results. Meanwhile the brand managed to increase gross profit from Latvia and Lithuania.

Second half-year was more successful regarding gross profit margin. Design lead innovation and a strong fashion trend combined successful results for blazers, while the suits business remains at the core of the brand and it managed to grow its sales figures.

Baltman retail sales



Revenue total discontinued and continued operations impact

Baltika signed on 6th October 2014 two-year support contract with Estonian Football Association under which the whole team of Estonian National Football Team, starting with coach Magnus Pehrsson, will be dressed into Baltman Unique tailor made suits. Baltika has cooperated with Estonian Football Association since year 2006 to provide Estonian national team representational look also outside the football stadium.

Ivo Nikkolo

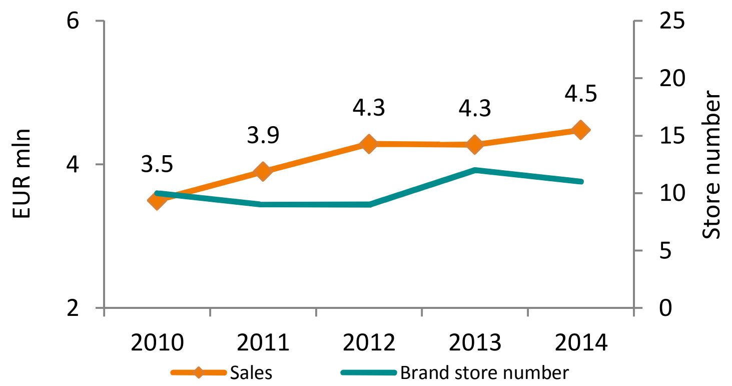
Ivo Nikkolo retail sales totalled 4.5 million euros in 2014, which is an increase of 6% compared to 2013. From Baltika's brands Ivo Nikkolo had the highest sales efficiency in year 2014.

The results of unique Estonian designer brand for women varied by seasons strongly over the year 2014. While first half-year brought a two-digit sales growth, then second half-year remained on the same level as prior year.

During spring the formal categories sales grew well, helped along by Travel collection made for offering comfort when travelling. Key areas were formal dresses, jackets and skirts. Lightweight, casual jackets also performed exceptionally well, even in colder than usual summertime. New, stylish lines of statement jewellery helped drive the accessories sale, which grew by 12% in both seasons.

Autumn-Winter result was disappointing, changing weather and small number of tourists in Baltics played a part in the results, especially in outerwear. In the second half-year the sales development of formal dresses was very positive, growing 37% compared to same period last year.

Ivo Nikkolo retail sales



Revenue total discontinued and continued operations impact

In November Ivo Nikkolo celebrated its 20th anniversary in line with Tallinn Fashion Week with a grand gala show "Ivo Nikkolo – since 1994", which also showed unique samples made specifically for the show. Designer's team created a special collection "Ivo Nikkolo 1994" for the anniversary celebration, which was also available in brands stores. Ivo Nikkolo collection was also presented in Riga during Fashion Week in November.

Bastion

Bastion retail sales were 1.6 million euros in 2014, which is an increase of 4% compared to prior year. As the brands volumes are still low, then closing of one store impacted result of Estonian market strongly, in Latvian market the brand showed growth in both sales volumes and efficiency.

New store concept was developed in year 2014, under which first new store was opened in

December in Tallinn, Ülemiste Centre.

Revenue total discontinued and continued operations impact

First half-year was more successful for Bastion brand. Significantly better choice of accessories and light knitwear increased the Spring-Summer season collection's turnover. Weaker second half-year was impacted by sales decrease of formal jackets and skirts of Autumn-Winter season's core collection.

WHOLESALE AND FRANCHISE

Baltika started working on finding new sales partners in 2012 in line with the strategic direction to grow sales volume through both wholesale and franchise partners. Despite the unstable economic situation in Russia and Ukraine the sales results were satisfactory – wholesale grew by 50% and reached 5.0 million euros.

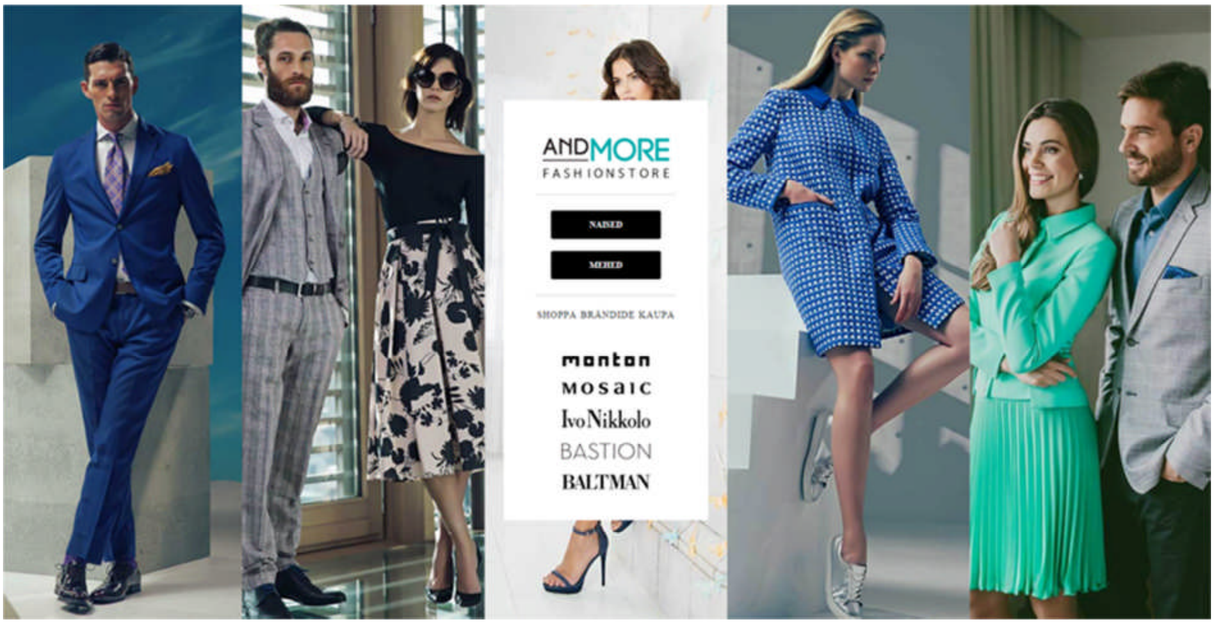
In 2014 new market was entered. In the end of the year franchise partner Mirworld opened three flagship stores in newly opened shopping centre in Spain, on Tenerife island and another two new stores in the beginning of 2015 that makes all Baltika five brands represented. In addition new franchise partner opened in year 2014 autumn in Moscow Monton, Baltman, Ivo Nikkolo and Bastion flagship stores. In 2014 autumn season 114 m^2 shop-in-shop of Monton trademark was opened in Tallinna Kaubamaja.

Largest sales revenue continues to come from Mosaic trademark, taking up approximately half of wholesale portfolio. In the same time sales of Monton trademark to wholesale clients has increased six times, taking up 25% of total wholesale. Wholesale of Bastion trademark has also been pleasing, growing 70% compared to prior year.

Target for year 2015 is to grow wholesale and franchise sales on existing markets, grow sales in Spain through opening of new sales areas by the existing partner, also to find new partners in rest of Europe.

E-COM SALES

On 6 August 2014 Baltika launched e-store andmorefashion.com; where together is all five Baltika's brands: Monton, Mosaic, Ivo Nikkolo, Bastion and Baltman. Functions developed for the e-store – single page cart, log in, look-books – all the views have been profoundly worked out.



Baltika e-store sales grew in the launching month 163% compared to August of 2013. E-com sales for the year were in total 0.5 million euros (+77%).

E-store andmorefashion.com delivers to all European Union member countries, Russia, Belarus and Ukraine – total of 31 countries.

Plan is to develop during 2015 e-store solution for 1-2 localised markets, doing it in local language and with local payment opportunities. Additional plan is starting the sale of Baltika's brands through third party web channels.

OPERATING EXPENSES AND NET PROFIT

Company's gross profit margin in 2014 was 51%, which is 2.6 percentage points lower than last year (2013: 53.6%). At the same time retail gross margin decreased only by 0.9 percentage points. Among others the lowering impact to the retail gross margin comes also from the client bonus reserve (reduces the gross profit) that was created for the new bonus programme. From other side the decrease of gross profit margin has been impacted by the lower margin in wholesale and franchise, which proportion from sales has increased from 6% to 9%. Gross profit for 2014 totalled to 28.4 million euros increasing by 0.6 million euros i.e. 2%.

In 2014, Baltika's average sales area increased by 2.5%, leading also to some increase in the operating expense. In connection with increase of multichannel development expense, head office's distribution expense grew. The total growth of distribution expense was 0.8 million euros and amounted to 24.6 million euros in 2014, which is 3% more than last year (2013: 23.8 million euros).

Administrative expenses were held under control in 2014 and with 1% growth amounted to 2.9 million euros. Other net operating expenses arrived at 0.2 million euros (2013: 0.1 million euros), which resulted in operating profit of 0.7 million euros. Due to higher growth in expenses than in gross profit, the operating profit has decreased in a year by 0.3 million euros.

In second half-year of 2014 financial expense has increased due to issuance of bonds and were 0.5 million euros (2013 0.4 million euros). With the income tax expenses in the amount of 0.1 million euros it leads to the net profit from continued operations amounting to 0.1 million euros (0.3 million euros less than in 2013, when it was 0.4 million euros).

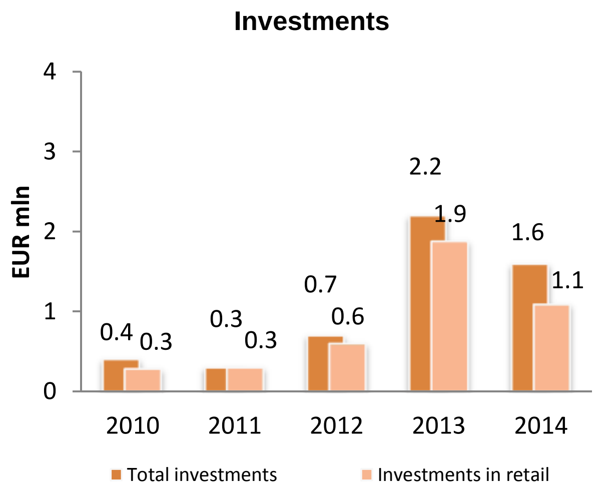
Together with the discontinued operations the Baltika's yearly net loss was 1.3 million euros, which includes the loss from allowance for assets in Ukraine of 1.1 million euros.

FINANCIAL POSITION

The year 2014 reflects some changes of the financial position. Funds from emission of convertible bonds were used for financing working capital and also for investments into fixed assets. Majority of the investments were made for developing own retail network – opening new and renovating existing stores.

As at 31 December 2014, Group inventories totalled to 13.4 million euros. Inventories have decreased by 0.4 million euros compared to last year-end, but taking into account the sale of Ukrainian retail unit the inventory has actually increased. Stock level of finished goods has increased in Latvia due to market expansion and in central warehouse due to growth of wholesale and e-store channels' sales. In addition to that, the level of inventory has increased due to the bigger proportion of manufactured products over out-sourced, which requires early intake of the materials.

As at 31 December 2014 the Group's property, plant and equipment and intangible assets cost value was 6.1 million euros, which decreased by 0.6 million euros compared to last year-end, when it was 6.7 million euros. The decrease of property, plant and equipment is strongly impacted by rouble exchange rate, especially through goodwill. Excluding the impact of currency rate, the company with the total invested amount of 1.6 million euros has contributed more into purchasing than was the amount of depreciation in the period.



Working capital was impacted by increased trade and other receivables due to growth of wholesale and franchise sale; decreased other long-term assets due to decrease in rent prepayments and decreased trade and other payables due to Baltika's improved liquidity position.

Public offering of bonds decided on the Annual general meeting of shareholders held on 28 April 2014, was exercised in full. 600 bonds in the total amount of 3,000,000 euros were issued on 28 of July. 3-year bonds carry 6.5% interest p.a. Each bond will give its owner the right to subscribe 10,000 shares of the Company with the subscription price of 0.50 euros. Long-term borrowings increased with the issuance in the named amount. As at 31 December 2014 the total borrowings amounted to 7.3 million euros, which signifies together with the usage of overdraft facility change of 2.0 million euros compared to last year-end (31.12.2013: 5.3 million euros).

As the bonds issued are long-term, then the Group working capital position improved and current ratio as at 31 December 2014 is 1.6 (31.12.2013: 1.5).

Due to the increased borrowings with the issuance of bonds Group's net debt (interest-bearing liabilities less cash and cash equivalents) as at 31 December 2014 was 6.5 million euros, increase of 2.1 million euros compared to prior year-end. The net debt to equity ratio was 75% as at 31 December 2014 (39% as at 31.12.2013), increase due higher borrowings amount and to allowance recorded for assets in Ukrainian entity and the revaluation of assets negative impact from Russian rouble exchange rate that reduced the owners' equity.

As at 31 December 2014 total equity attributable to equity holders of the parent was 8.7 million euros (31 December 2013: 11.5 million euros). Decrease of equity in the amount of 2.8 million euros is related to loss from discontinued operations, but also due to negative impact from Russian entities revaluation of net assets based on currency exchange rate that is recognised in equity.

CASH FLOWS

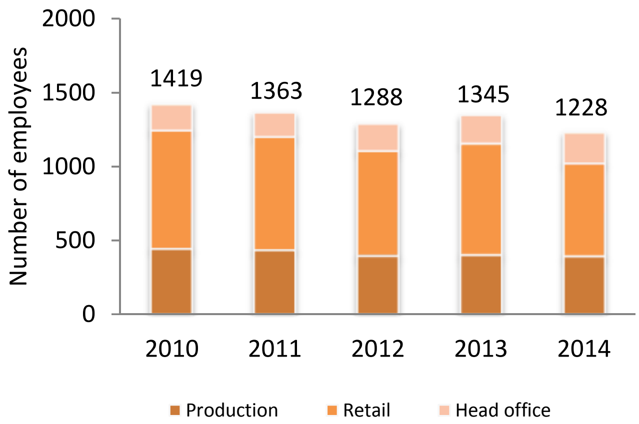
In 2014, Group's cash-flow from operating activities was negative 0.5 million euros (2013: +0.9 million euros) due to investments into working capital (increased inventory and trade receivables, decreased trade payables). Input to the investment activities was 1.4 million euros (2013: 2.3 million euros). In connection to emission of bonds in the amount of 3 million euros the cash generated from financing activities was 1.8 million euros. In year total the cash outflow of 0.1 million euros resulted in cash balance in the amount of 0.7 million euros.

PEOPLE

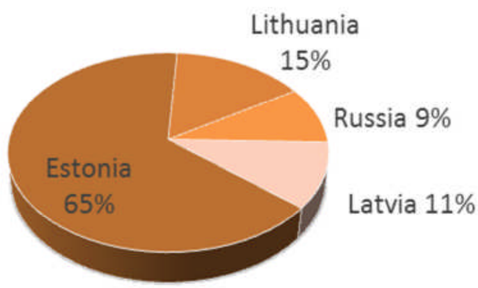
As at 31 December 2014, Baltika Group employed a total of 1,228 people that is 117 people less than as at 31 December 2013 (2013: 1,345): 629 (2013: 752) in the retail system, 391 (2013: 400) in manufacturing and 208 (2013: 193) at the head office and logistics centre. Decrease of 117 employees is mostly due to sale of Baltika Retail Ukraina. The 2014 average number of staff was 1,257 (2013: 1,319). The proportion of staff employed outside Estonia was 35%, i.e. 431 people (2013: 41%, 555).

Baltika Group employees remuneration expense in 2014 amounted to 11.5 million euros (2013: 10.7 million euros). The accrued remuneration with taxes, of the members of the Supervisory Council and Management Board totalled 0.4 million euros (2013: 0.4 million euros).

Number of employees



Breakdown of personnel by country at 31 December 2014



On January 30 2015 the Supervisory Board of AS Baltika decided to suspend Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave. The Management Board member responsible for the finance function during the leave of Maigi Pärnik-Pernik will be Meelis Milder.

Russian market organisation had from November a new manager. Director position was taken by Tatjana Zomareva, who has been working for years as Baltika Group Russian market sales manager.

As the result of annual research conducted by Estonian recruitment service provider CV Keskus, Baltika was noted as one of 20 most desirable employers in Estonia.

SOCIAL RESPONSIBILITY AND ENVIRONMENT

Baltika Group acknowledges as a company the importance of wider social responsibility and contributes as the largest company in fashion industry in the region consciously to the vitality of the field through different activities. Baltika employs different methods to encourage and support improving various social areas and problems. Baltika also considers the environmental aspects of its activities. The environmental dimension has been integrated into the Group's management structure and the Group strives to ensure that all its units operate in a way that is environmentally sustainable.

Baltika Lithuanian office is participating in "Green Office" project already for three years since year 2012. Initiative, covering the business centre where Baltika Lithuania office is located, involves companies and workers to make daily environment friendly decisions and reduce excessive use of resources. One significant big target in the project framework is to intentionally reduce the consumption of energy.

Baltika Group CSR projects

Baltika contributes to the clothing industry and fashion education with an aim to support Estonian fashion industry and the field's sustainability and development by contributing to development of fashion industry professionals curriculum and participating in the activities of educational institutions. The company has strong partnerships with the Estonian Academy of Arts, TTK University of Applied Sciences and Tallinn Industrial Education Centre.

Baltika allows students to attend its in-house training courses, arranges annual information days where it informs students about the processes and daily business of a fashion company and participates in the development of the fashion design curriculum of the Estonian Academy of Arts. Students of Estonian Academy of Arts were given in 2013 and 2014 the opportunity to participate in the creation of Ivo Nikkolo 20th anniversary collection where the best designs made it to production. Baltika also participates every year in assessing fashion industry related bachelor thesis, Baltika employees have participated in the evaluation committees. Baltika as the largest company in fashion industry in the region is the place for traineeship for many students from various areas of fashion, with the possibility of apprenticeship during and after their studies. Many of the former trainees have become valued employees of Baltika. During the 2014th year Baltika had approximately 50 students on traineeships from various educational institutions.

Baltika wants to ensure possibilities for development of new designers and is represented every year in the jury of one of the largest stages for young designers - ERKI fashion show.

Baltika brands´ CSR projects

Baltika has been the official sponsor of Estonian Olympic Committee and delegation since year 2004, also designing the parade and casual wear for Estonian athletes in Athens, Torino, Beijing, Vancouver and London Olympics. Special collection by Monton for 2014 Sochi Winter Olympics combined the Estonian national colours and ethnic patterns, was inspired by wolf as an ancient symbol of powerful animal, helping Estonian delegation of athletes perform for their country and outstand in dignity on the international sports arena.

The outfit created for the Estonian athletes' delegation, was chosen as one of the most outstanding and stylish among the Sochi Olympic outfits. In the end of year 2014 Baltika's contribution to international Olympic movement was evaluated highly by International Olympic Committee. Baltika

Sochi 2014, Photo: Olga Makina

was given Sport and Art award for over 10 years outstanding cooperation in creating parade outfit and support of athletes in preparation to Olympics.

In accordance with sponsorship agreement between Baltika and Estonian Football Association men's clothing brand Baltman procures from year 2006 Estonian Nation team players with representation clothes – footballers, coaches and officials wear Baltman tailor made suits during formal events.

Estonian Football team 2010. Photo: Artur Sadovski

Baltika's Lithuanian team provides since 2014 Baltman Travel suits for the coaches of Lithuanian champion for 16 times – Kaunas Zalgris basketball team.

Baltika supported in Lithuania through Monton brand two young beach volleyball talents – Ieva Dumbauskaite and Monika Povilaitytė, who belong to world best among up to 20 years old players.

Baltika has also supported culture projects. Baltman brand made small contribution to film project "Tangerines" ("Mandariinid"). "Tangerines" is the feature film produced in cooperation of Estonia and Georgia, which' international premiere took place 15 October 2013 in Tbilisi. In January 2015 "Tangerines" was first Estonian origin movie to be nominated at Golden Globe Awards for best foreign language film and in February the film was chosen to be one of the five best nominees of Foreign Language Film Oscar. Baltman tuxedos found on both occasion worthy wearers: film director Zaza Urušadze, actor Lembit Ulfsak and producer Ivo Felt.

From the left „Tangerines" film leading actor Lembit Ulfsak, director Zaza Urušadze and producer Ivo Felt. Photo: Mihkel Maripuu

Baltika supports its previous long-term employees – in addition to helping with their activities, company orginises meetings for them twice a year. Baltika also sponsors Baltika's female choir, that operates from the year 1961, and where Baltika's current and previous employees sing along with other singing enthusiasts.

Baltika has dressed students that represented Estonia at the International Chemistry Olympiad and best Estonian student companies that represented Estonia in Junior Achievement Young Enterprise Europe competition.

As a large employer in the region, Baltika is looking for ways to support the weakest part of society – children in poverty. Mosaic has collected donations for the children of Viljandi SA Perekodu foster home. For example part of the sales revenue from special collection Lotte by Mosaic was donated to those in need.

OUTLOOK AND OBJECTIVES FOR 2015

Economic environment

The economy in the Baltic countries is expected to have a stable growth. According to economic outlooks the growth is around 2-3% (in Latvia and Lithuania approximately a half percentage point higher than in Estonia). Meanwhile, the cost level should remain on the same level as in 2014. Due to the lack of qualified labour force, some wage growth is expected, which in combination with high labour force participation rate, gives base for larger private consumption.

The economic growth forecasts for Russia are much more volatile. Due to high dependence on oil price, the foreseeable downturn is between 0-5%. In addition, consumer confidence is weak, and high inflation restrains consumption of other than basic necessities. In 2014, the exchange rate of rouble to euro weakened by as much as 37%, but it is hard to forecast further direction.

The abovementioned events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic situation and its impact on the Group's operations may differ from management's current expectations.

Baltika Group

Based on the aforementioned Baltika expects moderate sales growth in the Baltics in 2015. Due to additional new stores, opened at the end of 2014, the largest growth is expected in Estonia.

In Russia the plan is to close all non-profitable stores outside St. Petersburg, Kaliningrad and Kazan. Assuming that the rouble exchange rate will remain on the level of the last quarter of 2014, which is weaker than the previous three quarters, Baltika foresees a decrease in retail sales by over 1/3 in 2015.

Cooperation with new franchise partners from 2014 will continue in 2015. As for many franchise stores, 2015 will be the first full year, and Baltika plans higher wholesale and franchise sales growth than for its own retail channel. As the share of wholesale and franchise in total sales continues to grow, the Group's gross profit margin will continue to decrease in 2015.

Baltika expects significant growth from the e-store andmorefashion.com, launched to cover all Baltika's trademarks in August 2014. Thus, 2015 will be the first full year for the new site with all brands. Developing new localised markets by providing local language and payment opportunities is also foreseen for 2015. Additional plans include selling Baltika's brands online through third party channels, too. Due to the aforementioned, Baltika plans significant e-store sales growth also for 2015.

The main goal for 2015 is to profoundly establish strategy: to maintain the position in the Baltic countries and to strengthen wholesale and franchise growth mainly through existing partners, optimising Russian market store portfolio and focusing on specific regions. No major investments are planned for 2015, regular amounts will be invested in own retail network, software etc. No additional financing from investors is planned for 2015.

Taking into account the long-term strategy, the targets for the Management of Baltika Group for 2015 are:

- to increase retail sales and profit on the Baltic market;

- to develop other channels (wholesale and franchise, e-commerce) and to increase their sales growth;
- to manage Russian market risks, and to optimise store portfolio in Russia;
- to increase operational efficiency, to improve distribution costs and sales ratio.

Financial target for the company's Management is to sustainably increase sales and profit.

BALTIKA SHARE

Baltika's share has been listed on the Tallinn Stock Exchange since 5 June 1997. The Tallinn Stock Exchange is a member of the world's largest exchange company NASDAQ. NASDAQ was established at the beginning of 2008 when NASDAQ Stock Market completed its merger with the Baltic and Nordic exchange company OMX. Stock exchange company delivers trading, exchange technology and public company services across six continents and, with over 3,200 companies.

Baltika's share does not have an official market maker. The rules enforced in 2005 require newly listed companies to sign a relevant agreement for a certain period. For shares that have been listed for a longer time, it has not been necessary to enter into or extend such agreements.

NASDAQ Baltic Market recognised in January 2015 companies with best investors relations practices, where Baltika received awards in two categories – "Best investors relations in the NASDAQ Baltic Market", the fifth place and "Best Annual Report and Corporate Governance Report", the second place.

SHARES

AS Baltika has 40,794,850 ordinary shares. Nominal value of share is 0.2 euros per share and no changes to the nominal value per share took place in 2014.

Ordinary shares

Baltika's ordinary shares are listed on the NASDAQ Tallinn Stock Exchange and carry equal voting and dividend rights. In the text below (the key share data, share price and trading figures, shareholder structure), any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

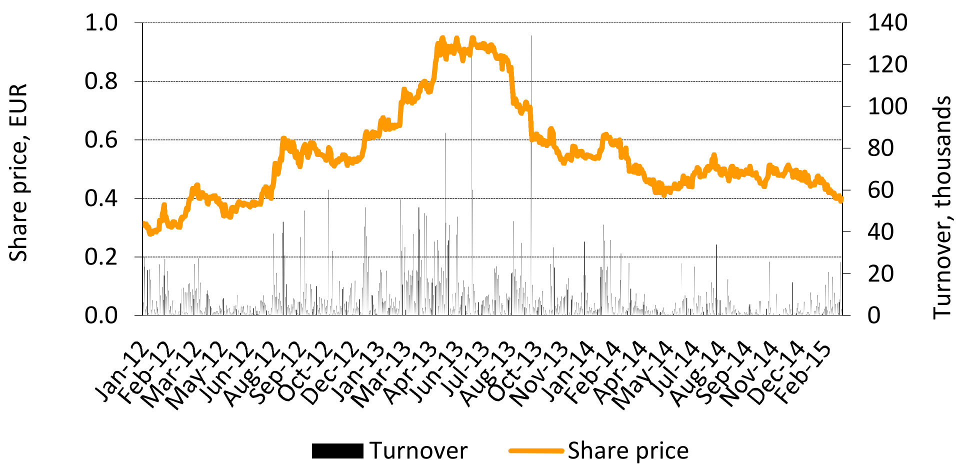
Information on listed ordinary shares

NASDAQ symbol: BLT1T
ISIN number: EE3100003609
Minimum number of shares to trade: 1
Number of shares: 40,794,850
Nominal value of a share: 0.2 euros
Votes per share: 1

SHARE PRICE AND TRADING

In 2014 the price of the Baltika share decreased by 15.5% to 0.462 euros. The Group's year-end market capitalisation was 18.9 million euros. During the same period, the OMX Tallinn All-Share Index decreased by 7.7%.

Share price and turnover



Share trading history

EUR	2010	2011	2012	2013	2014
High	1.23	1.52	0.65	0.95	0.63
Low	0.54	0.30	0.28	0.52	0.41
Average	0.82	0.81	0.43	0.74	0.49
Year-end price	1.14	0.30	0.57	0.55	0.46
Change, %	56%	-74%	91%	-5%	-16%
Traded volume	9,389,183	6,663,797	4 067 574	4,569,595	2,249,732
Turnover, in millions	7.84	5.51	1.75	3.38	1.16

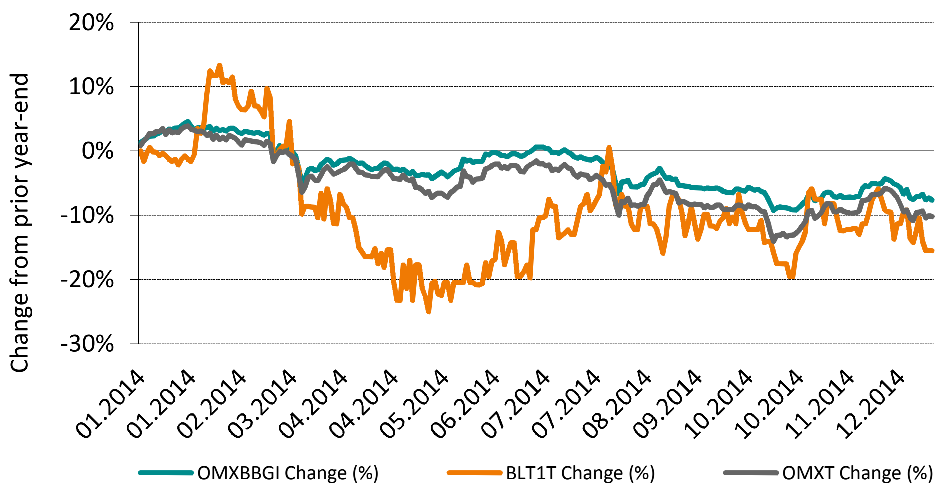
INDICES

The Nordic and Baltic exchanges of NASDAQ use the same index structure. The NASDAQ OMX Baltic index family comprises the All Share Index, the Tradable Index, the Benchmark Index, and sector indices. The indices are calculated in euros as price (PI) and/or gross (GI) indices. All indices are chain-linked, meaning that they are calculated based on the price level of the previous trading day. All Baltic equity indices, except sector indices, have a base value of 100 and a base date of 31 December 1999. The sector indices have base value of 1000 and base date of 30 June 2011. The base date for OMX Tallinn is 3 June 1996.

As of March 2015 Baltika share was part of the following all share indexes:

Index	Description	Type	Short name
OMX Tallinn GI	OMX Tallinn all share index	Gross index	OMXT
OMX Baltic GI	Baltic all share index	Gross index	OMXBGI

Yearly change of Baltika share and gross indexes



SHAREHOLDER STRUCTURE

At the end of 2014, AS Baltika had 1,842 shareholders. The number of shareholders decreased over the year by 4%.

The largest shareholder of AS Baltika is KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account), which owned 30.86% of ordinary shares as at the end of 2014. The full list of shareholders is available on the website of the Estonian Central Securities Depository (www.e-register.ee).

2014 Consolidated Annual Report (in thousands of euros)

Largest shareholders as at 31 December 2014

	Number of shares	Holding
ING Luxembourg S.A. client	12,590,914	30.86%
Clearstream Banking Luxembourg S.A. clients	6,430,845	15.76%
BMIG OÜ	4,750,033	11.64%
Skandinaviska Enskilda Banken Ab clients	3,414,700	8.37%
Svenska Handelsbanken clients	1,604,000	3.93%
AS Genteel	977,837	2.40%
Meelis Milder	746,331	1.83%
Central Securities Depository of Lithuania	707,703	1.73%
Luksusjaht AS	629,721	1.54%
Others	8,942,766	21.94%
Total	**40,794,850**	**100%**

Largest shareholders are international investment funds and other legal entities who own approximately 82% of the shares. Individuals hold approximately 18% of the shares.

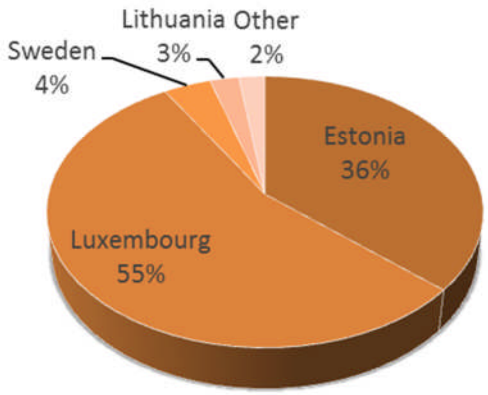
Shareholder structure by shareholder type as at 31 December 2014

	Number of shares	Holding
Management Board members, close family members and entities under their control	5,831,547	14.30%
Legal persons	28,888,215	70.81%
Individuals	6,075,088	14.89%
Total	**40,794,850**	**100%**

Shareholder structure by size of holding as at 31 December 2014

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	3	0.16%	23,771,792	58.27%
1,0 - 10,0%	7	0.38%	8,519,795	20.89%
0,1 - 1,0%	32	1.74%	3,553,486	8.71%
< 0,1%	1,800	97.72%	4,949,777	12.13%
Total	**1,842**	**100%**	**40,794,850**	**100%**

Shareholder structure by country at 31 December 2014



2014 Consolidated Annual Report (in thousands of euros)

SHARE CAPITAL

As at 31 December 2014 Baltika had 40,794,850 shares with nominal value of 0.2 euros per share.

According to the Articles of Association, AS Baltika maximum share capital is 20 million euros.

Changes in share capital

Date	Issue type	Issue price, EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.12.2008				**18,644,850**	**11,916**	**0**
10.07.2009	Issue of preference shares	0.64	4,000,000	**22,644,850**	14,473	0
31.12.2009				**22,644,850**	**14,473**	**67**
21.06.2010	Issue of ordinary shares	0.77	8,850,000	**31,494,850**	20,129	1,131
31.12.2010				**31,494,850**	**20,129**	**1,198**
30.05.2011	Share nominal conversion to euros				1,918	-1,377
31.05.2011	Cancellation of preference shares		-4,000,000	**27,494,850**	-2,556	**0**
31.05.2011	Issue of ordinary shares		4,000,000	**31,494,850**	2,556	**0**
3.08.2011	Issue of ordinary shares	0.7	4,300,000	**35,794,850**	3,010	0
31.12.2011				**35,794,850**	**25,057**	**89**
11.05.0212	Decrease of share nominal value				-17,898	-89
31.12.2012				**35,794,850**	**7,159**	**63**
16.07.2013	Conversion of H-bonds to shares	0.3	5,000,000	**40,794,850**	1,000	496
31.12.2013				**40,794,850**	**8,159**	**684**
31.12.2014				**40,794,850**	**8,159**	**809**

DIVIDENDS

According to Group dividend policy no dividends will be paid until Group has a strong financial position and an adequate investment ability. One indicator of strong financial position is when the capital to net gearing ratio is under 40% and availability of sufficient funds (cash and cash equivalents minus overdraft and short term borrowings is over 1% of total number of shares). In addition the actual dividend pay-out ratio will be determined based on the Group's cash flows, development prospects and funding needs.

When the aforementioned financial position is achieved, the Group will determine specific ratio what amount of profit will be paid out as dividends.

The Group ended 2014 with a consolidated net loss of 1.3 million euros. The Management Board of the Group's proposes that this year no dividends be distributed to the holders of ordinary shares. In previous year, the company did not distribute any dividends either.

For dividend history and ratios, please refer to the Key share data table.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Code (CGC) of the Tallinn Stock Exchange is a set of rules and principles which is designed, above all, for listed companies. Since the provisions of CGC are recommendations by nature, the company need not observe all of them. However, where the company does not comply, it has to provide an explanation in its corporate governance report. The "comply or explain" approach has been mandatory for listed companies since 1 January 2006.

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of the Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, corporate governance report contains information on the annual general meeting of 2014, the supervisory council, the Management Board and explains Baltika's governance structure and processes.

CGC Article 1.3.3.

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer.

Since Baltika does not have the required technical equipment, that would allow secure identification of shareholders, the currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.1.

The chairman of the supervisory council shall conclude a contract of service with each member of the Management Board for discharge of their functions.

Contract of service is concluded with four members of the Management Board for chairman or member functions as relevant.

CGC Article 2.2.7.

The basic salary, performance pay, severance package, and other benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the issuer and in the corporate governance report. Information shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, Baltika discloses the total amount of remuneration expense with taxes to members of the supervisory council and Management Board in the management report section of its interim and annual reports. In 2014, the figure amounted to 0.4 million euros. The contractual severance benefits of members of the Management Board range from 3- to 18-fold monthly remuneration depending on the period of service.

Members of the Management Board, like other employees, are eligible to performance pay in accordance with the Group's bonus scheme, which is based on the performance of profit centres. The maximum bonus level for the chairman of the Management Board/CEO is 2.5% of the Group's net profit for the financial year and 1% for other members of the Management Board. The maximum amount of prepayments of annual bonuses can be 50% of the expected amount; the final amount is calculated and paid out after the financial statements have been audited. The bonus of the chairman of the Management Board/CEO is determined by the Supervisory Council. The bonuses of members of the Management Board are determined by the chairman of the Supervisory Council based on a proposal made by the chairman of the Management Board. For the year 2014 there will not be any bonus payments to Members of the Management Board.

Members of the Management Board, similarly to all executives working under a director's contract in the Group, can receive one funded pension contribution of up to one month's salary per year, provided after they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the company's internal rules. Members of the Management Board participated together with other employees of the Group in the I-Bond (option) program in 2012.

CGC Article 3.2.5.

The remuneration of a member of the supervisory council (amount and disbursement procedure) shall be disclosed in the issuer's corporate governance report. Basic and additional remuneration (severance and other monetary benefits) shall be disclosed separately.

The annual general meeting of 2009 passed the motion that the emoluments of members of the Supervisory Council should remain the same as decided by the extraordinary general meeting of 8 December 2004. The remuneration of the chairman of the supervisory council amounts to 639 euros per month and the remuneration of a member of the supervisory council to 383 euros per month. A member of the supervisory council is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

A member of the Supervisory Council shall promptly inform the chairman of the Supervisory Council and the Management Board of any business offer related to the business activity of the issuer made to the member of the Supervisory Council or a person close or connected to the member of the Supervisory Council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.

In 2014 nor 2013 no conflicts of interests occurred.

CGC Article 5.6.

The issuer shall disclose the dates and places of meetings with analysts, and presentations and press conferences organized for analysts, investors or institutional investors on its website. The issuer shall enable shareholders to attend the above meetings and shall make the texts of the presentations available on its website.

In accordance with the rules of the Tallinn Stock Exchange, Baltika first discloses all material and price sensitive information through the stock exchange system. The information disseminated at meetings and press conferences is limited to previously disclosed data. All information which has been made public, including presentations made at meetings, is available on the Group's website (www.baltikagroup.com), which lists the contacts of persons who can provide further information. Presenting a schedule of meetings on the corporate website is not currently relevant.

As a rule, the issuer cannot enable other shareholders to attend the meetings held with institutional investors and analysts. To ensure the objectivity and unbiased nature of the meetings, institutional investors observe internal rules which do not allow third parties to attend such meetings.

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with the Baltika's Articles of Association, the auditor(s) is (are) appointed by the general meeting for the performance of a single audit or for a specific term. The annual general meeting which convened on 28 April 2014, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2014-2016. According to the audit agreement, Independent Auditor's Report is signed by Ago Vilu. The audit firm will be choosen based on the received offer with the best quality-price ratio – AS Baltika ensures the auditor's independence by rotating the signing partner in accordance with the rules of Financial Supervision Authority.

The audit fee is fixed in an agreement which is concluded by the Management Board. In the notice of the annual general meeting, Baltika publishes the information required by the Commercial Code (Section 294 Subsection 4) that does not include the auditor's fee. Baltika does not disclose the auditor's fee because the disclosure of such sensitive information would damage the competitive position of the audit firm (CGC Article 6.2.1.).

Under the law, the agreement entered into by an audit firm is governed by International Standards on Auditing, the Estonian Auditing Guidelines and the risk management policies of the audit firm that do not require the auditor to submit a memorandum on the issuer's non-compliance with the Corporate Governance Code. Accordingly, the agreement signed between AS Baltika and its audit firm does not include a corresponding article and the auditor does not submit such a memorandum (CGC Article 6.2.4.).

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

AS Baltika is a public limited company whose governing bodies are the shareholders' general meeting, the Supervisory Council and the Management Board.

General meeting

The general meeting is the Baltika's highest governing body. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the Baltika's financial year. An extraordinary general meeting is called by the Management Board when the Baltika's net assets based on audited results have declined below the level required by the law and there is over 2 months to annual general meeting of shareholders or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the Baltika's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined at 8 a.m. at the date of the general meeting.

The annual general meeting of 2014 was held on 28 April at 24 Veerenni in Tallinn, Estonia. A total of 30,023,187 shares were represented i.e. 73.6% of the voting stock. In accordance with good practise the shareholders had the possibility to ask questions in addition to Management Board members also from the auditor. The meeting approved the company's annual report and profit allocation proposal for 2013, appointed the auditor and decided the issuance of convertible bonds.

Supervisory Council

The Supervisory Council plans the activities of the AS Baltika, organises the management and supervises the activities of the Management Board. The Supervisory Council meets according to need but not less frequently than once every three months. A meeting of the Supervisory Council has a quorum when more than half of the members participate. A resolution of the Supervisory Council is adopted when more than half of the members of the supervisory council who participate in the meeting vote in favour. Each member of the supervisory council has one vote. In 2014 Supervisory Council members attended most of the meetings of the Supervisory Council.

According to the Articles of Association, Baltika's supervisory council has three to seven members. The members are elected by the general meeting for a period of three years.

Annual general meeting of shareholders on 20 April 2012 elected Supervisory Council composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Board meeting on 23 May 2012 elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Board.

Jaakko Sakari Mikael Salmelin is a partner of KJK Capital Oy; he has managed various Eastern European funds focusing mainly on the Baltic and Balkan markets. Tiina Mõis is the director of the investment firm AS Genteel and a member of the councils of several Estonian companies. Reet Saks is an attorney with Law Office Raidla Lejins & Norcous, a long-term partner of Baltika. Reet Saks has been a member of Baltika's Supervisory Council since 1997. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a member of the councils of several Baltic companies and he has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic countries. Valdo Kalm is the chairman of AS Eesti Telekom Management Board and has specialised knowledge in technology and telecommunications industry.

Two council members own Baltika's shares: Tiina Mõis owns 977,837 ordinary shares i.e. 2.4% of share capital through the company under her control and Lauri Kustaa Äimä 24 590 ordinary shares i.e. 0.1% as at the end of 2014.

Supervisory Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika Group.

Four out of the five members of Baltika's Supervisory Council were independent. The dependent member is Reet Saks who has been a member of Baltika's Supervisory Council for more than ten years.

Audit Committee

AS Baltika has an audit committee, with rules of procedure approved by Supervisory Council. The audit committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, and the external audit of the consolidated financial statements. The committee is also responsible for making recommendations in relation to the above issues to prevent or eliminate problems and inefficiency.

The audit committee reports to the Supervisory Council and its members are appointed and removed by the Supervisory Council. The committee has two to five members whose term of office is three years. The members of the audit committee are not remunerated for serving on the committee. Baltika's audit committee is chaired by Reet Saks. Members of the committee are Tiina Mõis and Jaakko Sakari Mikael Salmelin.

In 2014 the audit committee gathered one time. The committee met in December with the representatives of the audit firm AS PricewaterhouseCoopers to obtain overview of the observations made during 2014 audit interim work.

Management Board

The Management Board is a governing body which represents and manages Baltika in its daily activity in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. The members of the Management Board elect a chairman from among themselves who organises the activities of the Management Board. Every member of the Management Board may represent the company in all legal acts.

According to the Articles of Association, Baltika's Management Board may have three to seven members who are elected by the Supervisory Council for a period of three years. The supervisory council may also remove a member of the Management Board.

Baltika's management board has five members: Chairman Meelis Milder and members Andrew Paterson, Kati Kusmin, Maigi Pärnik-Pernik and Maire Milder.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik the CFO, Maire Milder the Branding and Retail Developing Director, Kati Kusmin Sales and Marketing Director and Andrew Patterson Product division Director.

On January 30 2015 the Supervisory Board of AS Baltika decided to suspend Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave. The Management Board member responsible for the finance function during the leave of Maigi Pärnik-Pernik will be Meelis Milder, who will also temporarily be the one responsible for the disclosure of information on the exchange.

Management board members Meelis and Maire Milder own Baltika's shares also through the holding company OÜ BMIG, which at the end of 2014 held 11.64% of Baltika's share capital. Latter hold 80.5% of OÜ BMIG shares. In addition, Management Board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2014 Management Board members, their close family members and entities under their control owned 14.29% of AS Baltika share capital.

Management Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika Group.

2014 Consolidated Annual Report (in thousands of euros)

Shareholdings of members of the Management Board at 31 December 2014

	Ordinary shares (listed)	
	No of shares	**Holding**
OÜ BMIG	4,750,033	11.64%
Meelis Milder	746,331	1.83%
Maire Milder	316,083	0.77%
Andrew Paterson	11,000	0.03%
Close family members of Management Board members	8,100	0.02%
Total OÜ BMIG and Management Board members	**5,831,547**	**14.29%**
Baltika share capital	**40,794,850**	**100%**

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2014 consolidated financial statements as presented on pages 33 to 76.

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 present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;

3. the Group is going concern.

Meelis Milder
Chairman of the Management Board
25 March 2015

Andrew J. D. Paterson
Member of the Management Board
25 March 2015

Kati Kusmin
Member of the Management Board
25 March 2015

Maire Milder
Member of the Management Board
25 March 2015

2014 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Current assets			
Cash and cash equivalents	4	710	852
Trade and other receivables	5	1,890	1,514
Inventories	6	13,415	13,751
Total current assets		**16,015**	**16,117**
Non-current assets			
Deferred income tax asset	7	420	494
Other non-current assets	8	605	1,013
Property, plant and equipment	9	2,895	3,023
Intangible assets	10	3,180	3,693
Total non-current assets		**7,100**	**8,223**
TOTAL ASSETS		**23,115**	**24,340**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	12	2,692	3,158
Trade and other payables	13,14	7,019	7,503
Total current liabilities		**9,711**	**10,661**
Non-current liabilities			
Borrowings	12	4,584	2,171
Other liabilities	13	83	0
Total non-current liabilities		**4,667**	**2,171**
TOTAL LIABILITIES		**14,378**	**12,832**
EQUITY			
Share capital at par value	15	8,159	8,159
Share premium		809	684
Reserves	15	1,182	1,182
Retained earnings		2,573	2,471
Net loss for the period		-1,263	102
Currency translation differences		-2,723	-1,090
TOTAL EQUITY		**8,737**	**11,508**
TOTAL LIABILITIES AND EQUITY		**23,115**	**24,340**

The Notes to the financial statements presented on pages 39-76 are an integral part of the Financial Statements.

2014 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	2014	2013
Continuing operations			
Revenue	16,17	55,596	51,828
Client bonus reserve	17	-300	0
Revenue after client bonus reserve		55,296	51,828
Cost of goods sold	18	-26,934	-24,051
Gross profit		**28,362**	**27,777**
Distribution costs	19	-24,636	-23,824
Administrative and general expenses	20	-2,905	-2,869
Other operating income	22	54	155
Other operating expenses	22	-222	-255
Operating profit		**653**	**984**
Finance income	23	0	6
Finance costs	23	-460	-388
Profit before income tax		**193**	**602**
Income tax expense	24	-127	-159
Net profit from continuing operations		**66**	**443**
Net loss for the period from discontinued operations	28	-1,329	-341
Net profit (loss) for the period		**-1,263**	**102**
Basic earnings per share, EUR	25	-0.03	0.00
Continuing operations		0.00	0.01
Discontinued operations		-0.03	-0.01
Diluted earnings per share, EUR	25	-0.03	0.00
Continuing operations		0.00	0.01
Discontinued operations		-0.03	-0.01

The Notes to the financial statements presented on pages 39-76 are an integral part of the Financial Statements.

2014 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2014	2013
Net profit (loss) for the period	**-1,263**	**102**
Other comprehensive income		
Items that subsequently may be classified to profit or loss		
Currency translation differences	-1,633	-401
Total comprehensive loss	**-2,896**	**-299**
Total comprehensive loss attributable to equity shareholders arises from:		
Continuing operations	-1,567	42
Discontinued operations	-1,329	-341

The Notes to the financial statements presented on pages 39-76 are an integral part of the Financial Statements.

2014 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2014	2013
Operating activities			
Continuing operations:			
Operating profit from continuing operations		653	984
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	9,10	1,219	1,460
Profit/loss from disposal of PPE		-13	25
Other non-monetary expenses		-443	-677
Changes in working capital:			
Change in trade and other receivables	5	-374	347
Change in inventories	6	-307	-2,315
Change in trade and other payables	13	-672	1,062
Interest paid		-372	-307
Interest received		0	6
Income tax paid		-53	-18
Discontinued operations		-180	285
Net cash generated from (used in) operating activities		**-542**	**852**
Investing activities			
Continuing operations:			
Acquisition of property, plant and equipment, intangibles	9,10	-1,444	-2,155
Proceeds from disposal of PPE, investment property	9	100	80
Discontinued operations		-8	-206
Net cash used in investing activities		**-1,352**	**-2,281**
Financing activities			
Received borrowings	12	0	1,000
Repayments of borrowings	12	-1,222	-2,280
Change in bank overdraft	12	86	1,566
Repayments of finance lease	11	-63	-39
Proceeds from bond issue	15	3,000	0
Redemption of share options		0	-4
Net cash generated from financing activities		**1,801**	**243**
Total cash flows		**-93**	**-1,186**
Cash and cash equivalents at the beginning of the period	4	**852**	**2,078**
Effect of exchange losses on cash and cash equivalents		-49	-40
Cash and cash equivalents at the end of the period	4	**710**	**852**
Change in cash and cash equivalents		**-142**	**-1,226**

The Notes to the financial statements presented on pages 39-76 are an integral part of the Financial Statements.

2014 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total
Balance as at 31 December 2012	**7,159**	**63**	**1,182**	**2,471**	**-689**	**10,186**
Profit for the period	0	0	0	102	0	102
Other comprehensive loss	0	0	0	0	-401	-401
Total comprehensive income (loss)	**0**	**0**	**0**	**102**	**-401**	**-299**
Equity-settled share-based transactions (Note 26)	0	125	0	0	0	125
Conversion of bonds to share capital (Note 15)	1,000	496	0	0	0	1,496
Balance as at 31 December 2013	**8,159**	**684**	**1,182**	**2,573**	**-1,090**	**11,508**
Loss for the period	0	0	0	-1,263	0	-1,263
Other comprehensive loss	0	0	0	0	-1,633	-1,633
Total comprehensive loss	**0**	**0**	**0**	**-1,263**	**-1,633**	**-2,896**
Equity-settled share-based transactions (Note 26)	0	125	0	0	0	125
Balance as at 31 December 2014	**8,159**	**809**	**1,182**	**1,310**	**-2,723**	**8,737**

Additional information on share capital and changes in equity is provided in Note 15.

The Notes to the financial statements presented on pages 39-76 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo. In addition Baltika operates under franchise agreement British fashion brand Blue Inc London stores in Baltic countries. The Baltika Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and whole- and retail sales. As of the end of 2014, there were 105 Baltika´s retail-stores on four markets in the Baltics and Eastern Europe (2013: 124 stores, thereof 18 in Ukrainian retail segment). Baltika also sells its collections through wholesale and franchise. As at 31 December 2014 Baltika Group employed 1,228 people (31 December 2013: 1,345, thereof 130 people in Ukrainian subsidiary).

AS Baltika's shares are listed on the Tallinn Stock Exchange. The largest and the only shareholder holding above 20% of shares (Note 15) of AS Baltika is KJK Fund Sicaf-SIF (on ING Luxembourg S.A. account).

AS Baltika (the Parent company) (registration number: 10144415, address: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2014 was operating in Estonia, Latvia, Lithuania, Russia in retail markets and as a franchisor in Belarus, Spain and Ukraine. The Group also operated in Ukrainian retail market for four months in 2014, Group exited retail market in Ukraine in April 2014.

The consolidated financial statements prepared for the financial year ended at 31 December 2014 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group):OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, OÜ Baltika TP and OÜ Baltika Retail and its subsidiaries OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva, OOO Kompania "Olivija" (Consolidation Group). See Note 27.

The Management Board of AS Baltika authorised these consolidated financial statements on 25 March 2015. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Council of the Parent company and the general meeting of shareholders.

Discontinued operations

In 2014 Baltika exited Ukrainian retail-market. 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. All financial statements and accompanying notes reflect information about continuing operations unless stated otherwise. See more information in Note 28.

Basis of preparation

The Group's 2014 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee

Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations that are relevant and became effective for the Group from 1 January 2014:

IFRS 12, Disclosure of Interest in Other Entities, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The amended standard resulted in additional disclosures in the consolidated financial statements, but did not have any impact on measurement of transactions and balances. See Note 27.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group´s annual periods beginning on or after 1 January 2015, and which the Group has not early adopted.

Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below; not yet adopted by the EU). IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU). The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group is currently assessing the impact of the amendments on its financial statements.

Principles of consolidation, accounting for business combinations and subsidiaries

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than 50% of the shares with voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated in the Group's financial statements.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date on which control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial purposes, from the rest of the entity. The Group has disclosed the results of disposal of discontinued operation as a single amount in the statement of comprehensive income and presented the analysis of this amount in a separate note "Discontinued operations" (note 28). The description of the facts and circumstances of the sale of the discontinued operations have been described in the same note.

Intra-Group transactions between discontinued and continuing operations are eliminated based on whether the arrangement between the continuing and discontinuing operations will continue subsequent to the disposal. The results of the discontinued operation include only those costs and revenues that will be eliminated from the Group on disposal.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss. In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the local currency. The functional currency of the Parent company and subsidiaries located in Estonia is euro[i]. The consolidated financial statements have been prepared in euros, which is the Parent company's functional and the Group's presentation currency.

Financial statements of foreign operations

The results and financial position of the foreign subsidiaries of the Group are translated into presentation currency as follows:

- assets and liabilities are translated into euros at the closing rate at the date of the balance sheet;
- income and expenses for statement of profit and loss are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

[i] On 1 January 2014 the Republic of Latvia joined the Euro area and adopted the Euro as its national currency, replacing Latvian lat. The Republic of Lithuania joined the Euro area on 1 January 2015 and adopted Euro as its national currency, replacing Lithuanian lit.

- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate of the balance sheet date.

When a subsidiary is partially or wholly disposed through sale, liquidation, repayment of share capital or abandonment, the exchange differences deferred in equity are reclassified to profit or loss.

Foreign currency transactions and balances

During the year, all foreign currency transactions of the Group have been translated to functional currencies based on the foreign currency exchange rates of the applicable Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the applicable Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses, including arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognised in the statement of profit and loss as income or expenses of that period.

Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under “Other operating income (expenses)” (Note 22). Gains and losses arising from cash, cash equivalents and borrowings are recognised under net method in financial expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand as well as bank account balances, and term deposits with original maturities of three months or less. Bank overdrafts are shown under current or non-current borrowings (depending on the nature and term of the contract) in the statement of financial position. Cash and cash equivalents are measured at amortised cost.

Financial assets

The purchases and sales of financial assets are recognised at the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Depending on the purpose for which financial assets were acquired as well as management’s intentions, financial assets are classified into the following categories at initial recognition:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

As at 31 December 2014 (and 31 December 2013) the Group had no other classes of financial assets than those classified under the category of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method. This method is used for calculating interest income on the receivable in the following periods.

When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the statement of profit and loss within “Other operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other receivables are assessed based on their collectible amounts. The collection of each receivable is assessed separately, taking into consideration all known information on the solvency of the debtor. Doubtful receivables are written down in the balance sheet to the collectible amount. Irrecoverable receivables are derecognised.

Receivables are generally included in current assets when they are due within 12 months after the balance sheet date. Such receivables whose due date is later than 12 months after the balance sheet date are reported as non-current assets.

Inventories

Inventories are recorded on the balance sheet at cost, consisting of the purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their present location and condition.

Purchase costs include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour) and also a systematic allocation of fixed and variable production overheads (such as depreciation and maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management).

The FIFO method is used to account for the cost of inventories. Inventories are measured in the balance sheet at the lower of acquisition/production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

An item of property, plant and equipment is subsequently stated at cost less any accumulated depreciation and any impairment losses. Subsequent expenditure incurred for an item of property, plant and equipment is recognised as a non-current asset when it is probable that the Group will derive future economic benefits from it and its cost can be measured reliably. The cost of reconstruction carried out on leased premises is depreciated over the shorter of the useful life of the asset and the lease term. Other maintenance and repair costs are expensed when incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- buildings and structures
  - -rental space-related assets 5-7 years;
  - -buildings 60 years;
- machinery and equipment 2-7 years;
- other fixtures 2-10 years.

At each balance sheet date, the appropriateness of depreciation rates, methods and the residual value is assessed. When the residual value of the asset exceeds its carrying amount, the depreciation of the asset is ceased.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss in "Other operating income (expenses)".

Intangible assets (excluding goodwill)

An intangible asset is initially recognised at its acquisition cost, comprising its purchase price, any directly attributable expenditure on preparing the asset for its intended use and borrowing costs that relate to assets that take a substantial period of time to get ready for use. After initial recognition, an intangible asset is carried at its acquisition cost less any accumulated amortisation and impairment losses.

Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (5-50 years).

Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3-10 years).

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of non-controlling interest in the acquiree. Goodwill which arose in the acquisition of a business is recognised as an intangible asset in the consolidated financial statements. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is immediately recognised under "Other operating income".

At the transaction date, goodwill is recognised in the statement of financial position at its acquisition cost. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill is not amortised. Goodwill is allocated to CGUs (cash generating units) for the purpose of impairment testing.

At each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value (if it is lower than its carrying amount).

Goodwill which arose in the acquisition of foreign businesses is translated using the foreign exchange rate of the applicable Central bank prevailing on the balance sheet date.

Impairment of non-current assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but are tested annually for impairment, by comparing their carrying amount with the recoverable amount.

Assets that are subject to amortisation and depreciation and assets with infinite useful life (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

Assets which were written down are reviewed on each balance sheet date to determine whether their recoverable value has arisen. The reversal of the impairment loss is recorded in the statement of profit and loss of the financial year as a reduction of the impairment losses. Impairment loss recognised for goodwill is not reversed.

Finance and operating leases

Leases, in the case, of which the lessor retains substantially all the risks and rewards of ownership, are classified as operating leases. Other leases are classified as finance leases.

The Group is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the statement of profit and loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets leased under finance leases are depreciated similarly to acquired non-current assets whereas the depreciation period is the lower of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

Payments made under operating leases are charged to the statement of profit and loss on a straight-line basis over the lease term.

The future minimum lease payments under non-cancellable operating leases are calculated based on the non-cancellable periods of the leases taking into account the following criteria:

- should the termination of the agreement require a mutual agreement, lease payments for the three-month period are taken into consideration;
- should the termination of the agreement require an advance notice, lease payments due within the advance notice period are taken into consideration.

Payables to employees

Payables to employees contain the contractual right arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is to be paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability at the balance sheet date. In addition to the holiday pay, this liability also includes accrued social and unemployment taxes.

Provisions and contingent liabilities

Provisions for liabilities and charges resulting from environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (i) the best estimate of the expenditure required to settle any financial obligation arising on the balance sheet date and (ii) the amount initially recognised less, when appropriate, cumulative amortisation. Consequently, any financial guarantees issued on behalf of parties outside of the Group will result in recognition of a liability, unless the likelihood of occurrence is zero.

Financial liabilities

All financial liabilities (trade payables, borrowings, bonds and other current and non-current borrowings) are initially recorded at the proceeds received, net of transaction costs incurred on trade date. The amortised cost of current liabilities normally equals their nominal value; therefore current liabilities are stated in the statement of financial position in their redemption value. Non-current liabilities are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is classified as current when it is due within 12 months after the balance sheet date or the Group does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Offsetting

Financial assets and financial liabilities are offset only when there exists a legally enforceable right and these amounts are intended to be settled simultaneously or on a net basis.

Share capital

Ordinary shares are classified in equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity item “Share premium” or in case of absence of share premium as a reduction of the equity item “Retained earnings”. Preference shares are classified in equity in case they meet the definition of equity instrument or if they form a compound financial instrument which includes a component that meets the definition of equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity by the equity instrument and as a reduction of the liability and equity in proportion by the compound financial instrument.

Compound financial instruments

Compound financial instruments issued by the Group can comprise of (i) convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value and (ii) preference shares which entitle the holder a guaranteed interest and subsequent conversion of the instrument into ordinary shares. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Other reserves

Reserves are set up in accordance with the resolution of the general meeting of shareholders and they can be used to offset losses from prior periods as well as to increase share capital. Payments shall not be made to shareholders from reserves.

Statutory reserve

In accordance with the Commercial Code, statutory reserve has been set up from annual net profit allocations. During each financial year, at least one-twentieth of the net profit should be transferred to reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Share-based payments

The fair value of services (work contribution) supplied by the employees to the Group in exchange for the shares is recognised as an expense in the statement of profit and loss and in share premium in equity during the vesting period (from the grant date of convertible bonds until the vesting date). The fair value of the services received is determined by reference to the fair value (market value) of equity instruments granted to the employees at the grant date. For the employee to receive the right to be able to convert the convertible bond into shares under the share-based payment agreement, there must be an existing employment relationship and therefore at each balance sheet date, the number of estimated convertible bonds expected to be vested is assessed and personnel expenses as well as share premium items are adjusted to reflect the change in the number of bonds expected to be converted. The amounts received for shares upon the conversion of a convertible bond less direct transaction costs is recognised in the items “Share capital” and “Share premium” in equity.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable, taking into consideration all discounts and concessions made. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer and the amount of revenue and costs incurred in respect of the transaction can be measured reliably.

Retail sales

Revenue from the sale of goods is recognised at the time of selling the goods to the customer at the retail store, generally for cash or by card payment. The sales price also includes fees for card transactions recognised as distribution costs. Past experience is used to estimate and provide for sales returns at the time of sale.

Wholesale and franchise

Revenue from the sale of goods is recognised when the risks and returns have been passed to the customer according to delivery terms. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

Other

Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method. Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. For further information see section “Interest income and expenses”. Dividend income is recognised when the right to receive payment is established.

Revenue from the sale of goods and services is included in the statement of profit and loss on line “Revenue” and revenue from the sale of investments in the line “Finance income”.

Client bonus reserve

The Group operates a client loyalty programme: customers accumulate bonus-points from purchases made, which entitle them to discounts on future purchases. The reserve for bonus-points are recognized on the moment of the initial sales transaction using estimates for probable redemption of bonus-points. Bonus-points expire after six months from the customer´s last purchase.

Interest income and expenses

Interest income/expenses have been recognised in the statement of profit and loss for all financial instruments that are measured at amortised cost using the effective interest rate method. The effective interest rate is a method for calculating the amortised cost of a financial asset or a financial liability or the method for allocating interest income/expenses to the respective period. The effective interest rate is the rate that discounts the expected future cash receipts/payments over the expected useful life of the financial asset or the financial liability to its carrying amount. In calculating the effective interest rate, the Group assesses all contractual terms of the financial instrument but does not consider future credit losses. All contractual major service fees paid or received between the parties that are an integral part of the effective interest rate, transaction costs and other additional taxes or deductions are used in the calculation. If a financial asset or a group of similar financial assets has been written down due to impairment, interest income is calculated on them using the same interest rate as was used for discounting the future estimated cash receipts in order to determine the impairment loss.

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Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of income can be measured reliably. When the receipt of interest is uncertain, interest income is recognised on a cash basis. Interest income is recognised in the line "Finance income".

Segment reporting

Business segments are components of The Group that engage in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Management Board of the Parent company AS Baltika.

Segment results include revenues and expenses directly attributable to the segment and the relevant part that can be allocated to the particular segment either from external or internal transactions. Segment assets and liabilities include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax of 21/79 (from 01. January 2015: 20/80) of the amount paid out as dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are paid.

Corporate income tax in other countries

In accordance with the local income tax laws, the net profit of companies located in Latvia, Lithuania and Russia that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

Corporate income tax rates

	2015	2014
Latvia	15%	15%
Lithuania	15%	15%
Russia	20%	20%

Deferred income tax is provided using the liability method. Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. The main temporary differences arise from depreciation and tax loss carry-forwards. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares outstanding. Diluted earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares taking also into consideration the number of dilutive potential shares.

NOTE 2 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to estimates, Management uses certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include: valuation of inventory (Note 6, 18), valuation of deferred income tax assets (Note 7) and valuation of goodwill (Note 10).

Inventory valuation (Note 6)

Upon valuation of inventories, the Management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 10,581 thousand euros as at 31 December 2014 and 10,964 thousand euros as at 31 December 2013), upon valuation of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 2,180 thousand euros as at 31 December 2014 and 2,192 thousand euros as at 31 December 2013); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 79 thousand euros as at 31 December 2014 and 72 thousand euros as at 31 December 2013).

Deferred income tax (Note 7)

Deferred income tax asset has mostly arisen through tax loss carry-forwards from subsidiaries operating in foreign markets and is recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future the management makes judgements and applies estimation based on the future development of the market and its outcomes to evaluate future expected revenue. The profit assumption is based on the attainment of the Group's strategic goals. The carrying amount of net deferred income tax asset recognised in the balance sheet amounts to 420 thousand euros as at 31 December 2014 and 494 thousand euros as at 31 December 2013.

Valuation of goodwill (Note 10)

The Management has performed an impairment test for goodwill that arose on the acquisition of the Russian group entities, subsidiary SIA Baltika Latvija and the subsidiary OÜ Baltika Tailor. Future expected cash flows based on the budgeted sales and production volumes respectively have been taken into consideration in determining the recoverable amount of the investments. The future expected cash flows have been discounted using the expected rate of return in the particular market within the similar industry. If the recoverable amount of cash generating unit is lower than its carrying amount, an impairment loss is recognised. Valuation of goodwill refer to Note 10.

NOTE 3 Financial risks

In its daily activities, the Group is exposed to different types of risks. Risk management 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 variable for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks. Management of the Group's Parent company considers all the risks as significant risks for the Group.

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The basis for risk management for 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 monitors the management's risk management activities.

Market risk

Foreign exchange risk

Sales from continuing operations in foreign currencies not pegged to euro constitute 14% of the revenues of the Group (2013: 18%). In 2014 sales was conducted in following foreign currencies in retail markets: LTL (Lithuanian lit), RUB (Russian rouble), in 2013 LVL (Latvian lat), RUB (Russian rouble), LTL (Lithuanian lit). The majority of raw materials used in production are acquired from European Union, goods purchased for resale outside European Union. The major 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. The Group's main revenues arise from retail sales. 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. The changes in average foreign currency rates against euro in the reporting period were the following:

Average rates	**2014**	**2013**
RUB (Russian rouble)	-20.35%	-6.04%
LVL (Latvian lat)	-	-0.60%
USD (US dollar)	-0.03%	-3.37%
GBP (British pound)	5.08%	-4.73%

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

Balance-sheet date rates	
RUB (Russian rouble)	-59.60%
USD (US dollar)	11.96%
GBP (British pound)	6.57%

Foreign exchange risk arises from cash and cash equivalents (Note 4), trade receivables (Note 5) and trade payables (Note 13) denominated in currencies other than euro.

If the foreign exchange rates in relation to the euro as at 31 December 2014 had been up to 30% higher (lower), the impact on the net profit for the year would have been +/-11 thousand euros (2013 up to 8% higher (lower): +/-30 thousand euros on the net profit).

The assessment of foreign exchange rate sensitivity to the 2014 result is based on the assumptions that the reasonably possible fluctuations in foreign currency exchange rates of the main trading currencies of the Group are the following: Russian rouble does not exceed +/-30%, US dollar does not exceed +/-5%, British pound does not exceed +/-5%. Lithuanian lit is pegged to the euro and was substituted by euro in 2015, there is no foreign exchange risk arising from cash and cash equivalents, trade receivables and trade payables denominated in this currency.

The assessment of foreign exchange rate sensitivity to the 2013 result is based on the assumptions that the reasonably possible fluctuations in foreign currency exchange rates of the main trading currencies of the Group are the following: Russian rouble does not exceed +/-9%, Ukrainian hryvnia does not exceed +/-8%, US dollar does not exceed +/-6%, British pound does not exceed +/-5%. Lithuanian lit is pegged to the euro and Latvian lat was substituted by euro in 2014, there is no foreign exchange risk arising from cash and cash equivalents, trade receivables and trade payables denominated in those currencies

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Impact of the potential change in the currency exchange rates on the net profit/loss arising from the translation of monetary assets and liabilities

	Impact 2014	Impact 2013
Cash and cash equivalents	25	39
Trade and other receivables	16	9
Trade and other payables	-52	-78
Total	**-11**	**-30**

The Group's non-current borrowings were denominated in euros, therefore no currency risk arises.

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. 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-carrying 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. 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.

Non-current borrowings as at 31 December 2014 and 31 December 2013 were subject to a floating interest rate based on Euribor, which is fixed every six months or had a fixed interest rate (Note 12). 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.

If for the reporting period, floating interest rates on borrowings had been one percentage point higher with all other variables held constant, the post-tax profit for the year would have been 69 thousand euros (2013: 58 thousand euros post-tax profit lower) higher and if 0.1 percentage point lower, the post-tax loss for the year would have been 7 thousand euros lower (2013: 6 thousand euros post-tax profit higher).

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 (recognised as other receivables) with banks and financial institutions as well as outstanding 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. For banks in Eastern Europe, other ratings are also considered acceptable.

Cash and cash equivalents at bank classified by credit rating[1]

	31 Dec 2014	31 Dec 2013
A	440	358
B	53	199
C	13	0
Total (Note 4)	**506**	**557**

[1]The credit rating applies on long-term deposits as published by Moody's Investor Service website.

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Receivables

As at 31 December 2014 the maximum exposure to credit risk from trade receivables (Note 5) and other non-current assets (Note 8) amounted to 1,566 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, commercial bond issues, and monitors 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 (Note 12). The unused limit of Group´s overdraft facilities as at 31 December 2014 was 2,347 thousand euros (31 December 2013: 1,000 thousand euros).

Financial liabilities by maturity as at 31 December 2014

		Undiscounted cash flows[1]			
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
Loans (Note 12)[2]	4,016	319	2,492	1,424	4,235
Finance lease liabilities (Note 12)	236	17	45	192	254
Convertible bonds (Note 12, 15)	3,024	0	0	3,610	3,610
Trade payables (Note 13)	3,969	3,969	0	0	3,969
Other financial liabilities (Note 13)	1	1	0	0	1
Total	**11,246**	**4,306**	**2,537**	**5,226**	**12,069**

Financial liabilities by maturity as at 31 December 2013

		Undiscounted cash flows[1]			
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
Loans (Note 12)[2]	5,150	332	3,014	2,158	5,504
Finance lease liabilities (Note 12)	155	12	30	135	177
Convertible bonds (Note 12, 15)	24	0	0	24	24
Trade payables (Note 13)	4,966	4,966	0	0	4,966
Other financial liabilities (Note 13)	2	2	0	0	2
Total	**10,297**	**5,312**	**3,044**	**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.

[2]Used overdraft facilities are shown under loans 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 (especially non-European Union market – Russia, Ukraine, Belarus).

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.

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.

Economic environment in Russia

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the Central Bank of Russian Federation (CBRF) exchange rate fluctuated between RUB 32.7292 and RUB 56.2584 per USD;
- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the Russian Trading System stock exchange index ranged between 1,445 and 791;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- some of investment credit agencies have indicated a negative outlook for credit rating, meaning further downgrades are possible;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

The abovementioned events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating operating and economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

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Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as 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.

Loan agreements with the banks include certain restrictions and obligations to provide information to the bank concerning payments of dividends, changes in share capital and in cases of supplementing additional capital.

Commercial Code sets requirement to equity level – the required level of equity has to be minimum 50% of share capital.

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 2013 this goal was achieved. However in 2014 the ratio was 75%. There are number of factors affecting this: result of discontinued operation, but also the change of currency translation reserve due to the fluctuation of exchange rate of rouble decreased equity (see also Note 28). Factor was also increase in borrowings, which was caused by issuance of J-bonds (see Notes 12 and 15).

Net gearing ratio

	31 Dec 2014	31 Dec 2013
Total borrowings (Note 12)	7,252	5,305
Cash and cash equivalents (Note 4)	-710	-852
Net debt	6,542	4,453
Total equity	8,737	11,508
Net gearing ratio	**75%**	**39%**

Fair value

The Group estimates that the fair values of the financial assets (Notes 4-5, 8) and liabilities (Notes 12-14) denominated in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 December 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 short-term.

Regarding to the Group's long-term borrowings that 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. Regarding to the Group´s long-term borrowings that have a fixed interest rate, the interest rate does not differ from the market rate. 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.

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock exchange or some other active regulated market.

- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.

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- Level 3: Financial instruments that are valued by assessment methods based on non-monitored inputs.

See more information about the carrying values of borrowings and about interest rates in Note 12.

NOTE 4 Cash and cash equivalents

	31 Dec 2014	31 Dec 2013
Cash at hand	86	295
Cash at bank and overnight deposits	624	557
Total	**710**	**852**

Cash and cash equivalents by currency

	31 Dec 2014	31 Dec 2013
EUR (euro)	429	173
LTL (Lithuanian lit)	197	126
RUB (Russian rouble)	84	241
UAH (Ukrainian hryvnia)	0	213
LVL (Latvian lat)	0	99
Total	**710**	**852**

For additional information also see Note 3.

NOTE 5 Trade and other receivables

	31 Dec 2014	31 Dec 2013
Trade receivables, net	1,456	755
Other prepaid expenses[1]	401	617
Tax prepayments and tax reclaims, thereof	3	79
Value added tax	1	41
Prepaid income tax	0	13
Other taxes	2	25
Other prepayments	30	63
Total	**1,890**	**1,514**

[1]Other prepaid expenses include prepaid lease expense of the stores and insurance expenses, prepayment for information technology services and other expenses of similar nature.

Trade receivables by region (client location) and by due date

31 Dec 2014	Baltic region	Eastern European region	Other regions	Total
Not due	620	276	161	1,057
Up to 1 month past due	42	0	48	90
1-3 months past due	39	20	203	262
3-6 months past due	0	0	46	46
Over 6 months past due	0	0	1	1
Total	**701**	**296**	**459**	**1,456**

31 Dec 2013	Baltic region	Eastern European region	Other regions	Total
Not due	423	170	28	621
Up to 1 month past due	22	0	37	59
1-3 months past due	3	0	70	73
3-6 months past due	0	0	2	2
Total	**448**	**170**	**137**	**755**

In 2014 no irrecoverable receivables were derecognized (2013: 1 thousand euros).

For the wholesale customers' credit policy is based on next actions: monitoring credit amounts, past experience and other factors are taken into consideration. For some wholesale clients prepayments or payment guarantees through bank are required. For some 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.

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Trade receivables (net) in denominated currency

	31 Dec 2014	31 Dec 2013
EUR (euro)	1,352	580
RUB (Russian rouble)	53	87
LTL (Lithuanian lit)	51	24
LVL (Latvian lat)	0	45
UAH (Ukrainian hryvnia)	0	19
Total	**1,456**	**755**

For additional information also see Note 3.

NOTE 6 Inventories

	31 Dec 2014	31 Dec 2013
Fabrics and accessories	2,180	2,192
Work-in-progress	79	72
Finished goods and goods purchased for resale	10,911	11,306
Allowance for impairment of finished goods and goods purchased for resale (Note 18)	-330	-342
Prepayments to suppliers	575	523
Total	**13,415**	**13,751**

For additional information also see Note 2.

NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2014

	Baltic region	Eastern European region	Total
Deferred income tax asset			
On PPE and other tax based differences[1]	-56	-9	-65
On tax loss carry-forwards	330	155	485
Total	**274**	**146**	**420**
Deferred income tax asset, net, thereof	**274**	**146**	**420**
Non-current portion	274	146	420
Deferred income tax income (-expense) (Note 24)	**-102**	**28**	**-74**

Deferred income tax as at 31 December 2013

	Baltic region	East- European region	Total
Deferred income tax asset			
On PPE and other tax based differences[1]	-46	58	12
On tax loss carry-forwards	422	60	482
Total	**376**	**118**	**494**
Deferred income tax asset, net, thereof	**376**	**118**	**494**
Non-current portion	376	118	494
Deferred income tax expense (Note 24)	**-143**	**0**	**-143**

[1]Income tax liability can be settled against deferred tax assets in one country/company, therefore a deferred tax asset is recognised.

The recovery of the deferred income tax asset arising from tax loss carry-forwards is dependent on future taxable profits of subsidiaries that have to exceed the existing losses to be carried forward. An analysis of expected future profits was carried out when preparing the financial statements. The presumption of profit is dependable on attainment of each respective company strategic goals. The deferred tax asset resulting from losses carried forward is recognised to the extent that the realisation of the related tax benefit through the future profits is probable.

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The Group did not recognise in the statement of financial position deferred income tax assets of 125 thousand euros (31 December 2013: 645 thousand euros) in respect of losses and other tax based differences amounting to 621 thousand euros (31 December 2013: 3,255 thousand euros) that can be carried forward against future taxable income. Losses and other tax based differences expire within the following ten years after the balance sheet or can be used for unlimited period.

For additional information also see Note 2.

NOTE 8 Other non-current assets

	31 Dec 2014	31 Dec 2013
Non-current portion of lease prepayments[1]	343	549
Other long-term receivables[2]	262	464
Total other non-current assets	**605**	**1,013**

[1]Non-current portion of lease prepayments arise from lease agreements of the Group's retail subsidiaries.

[2]Other long term receivables consist of the receivables from the sale of property and assets, trademarks MasCara and Herold and also receivables from the sale of real-estate.

Credit risk arises from other long-term receivables (Note 3). The Group monitors continuously outstanding credit amount and the adherence to agreed dates. All receivables are paid according to contractual schedule.

NOTE 9 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments	Total
At 31 December 2012					
Acquisition cost	**3,975**	**5,480**	**6,645**	**3**	**16,103**
Accumulated depreciation	-3,303	-4,786	-5,758	0	-13,847
Net book amount	**672**	**694**	**887**	**3**	**2,256**
Additions	777	399	954	0	2,130
Disposals (Note 22)	-12	-2	-5	0	-19
Reclassifications to/from inventories	0	0	4	0	4
Reclassification	0	-25	28	-3	0
Depreciation (Note 18-20)	-482	-324	-475	0	-1,281
Currency translation differences	-29	-17	-21	0	-67
At 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	344	238	694	0	1,276
Disposals, impairments (Note 22)	-94	-32	-75	0	-201
Depreciation (Note 18-20)	-301	-281	-424	0	-1,006
Currency translation differences	-92	-42	-63	0	-197
At 31 December 2014					
Acquisition cost	**2,330**	**5,143**	**5,253**	**0**	**12,726**
Accumulated depreciation	-1,547	-4,535	-3,749	0	-9,831
Net book amount	**783**	**608**	**1,504**	**0**	**2,895**

Details of assets acquired under finance lease terms are shown in Note 12.

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NOTE 10 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
At 31 December 2012					
Acquisition cost	**2,296**	**1,243**	**0**	**2,279**	**5,818**
Accumulated amortisation	-1,464	-204	0	0	-1,668
Net book amount	**832**	**1,039**	**0**	**2,279**	**4,150**
Additions	67	0	0	0	67
Disposals	-12	0	0	0	-12
Amortisation (Note 18-20)	-267	-45	0	0	-312
Currency translation differences	-4	0	0	-196	-200
At 31 December 2013					
Acquisition cost	**2,191**	**1,243**	**0**	**2,083**	**5,517**
Accumulated amortisation	-1,575	-249	0	0	-1,824
Net book amount	**616**	**994**	**0**	**2,083**	**3,693**
Additions	291	0	28	0	319
Amortisation (Note 18-20)	-196	-44	0	0	-240
Currency translation differences	-4	0	0	-588	-592
At 31 December 2014					
Acquisition cost	**2,132**	**1,243**	**28**	**1,495**	**4,898**
Accumulated amortisation	-1,425	-293	0	0	-1,718
Net book amount	**707**	**950**	**28**	**1,495**	**3,180**

Impairment tests for goodwill

Goodwill, carrying value as at 31 December 2014 1,495 thousand euros (31 December 2013: 2,083 thousand euros), is tested for impairment at each balance sheet date. The carrying amount of goodwill applicable to CGUs (cash generating units) of Russian group entities, Baltika Tailor OÜ and SIA Baltika Latvija was tested for impairment at 31 December 2014. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

	Baltika Tailor CGU		Russian entities		Baltika Latvija CGU	
Balance at 31 December	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Carrying amount of goodwill	355	355	985	1,573	155	155
Growth in revenue[1]	3.2%	4.3%	-40%-+10%	2.6%	3.1%	4.4%
Growth rate[2]	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate[3]	13.5%	11.4%	18.8%	13.7%	13.1%	11.2%
Difference between recoverable and carrying amount	248	1,348	266	943	25,054	39,742

[1]Management determined average annual growth in revenue for Baltika Tailor and sales efficiency per square metre for Russian group entities and Baltika Latvija for the five-year period.
[2]Growth rate used to extrapolate cash flows beyond the year 2019.
[3]Pre-tax discount rate applied to the cash flow projections (WACC). The change in discount rates results from changes in industry indicators for the specific region.

The growth rates used for projections have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the projected future years in the respective region. The weighted average cost of capital (WACC) used was pre-tax and reflects specific risks applicable to the specific market and industry sector.

The tests resulted in recoverable value exceeding the carrying amount of the cash generating unit and consequently no impairment losses have been recognised. If the average annual growth in sales efficiency were 1.0% and -8.0% for Russian entities and SIA Baltika Latvija respectively the recoverable amount would have been equal to the carrying amount (31 December 2013: respectively

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2.13% and -9.7%). If the average annual growth in sales for Baltika Tailor were 0.8% (31 December 2013 -2.3%) the recoverable amount would have been equal to the carrying amount. If the average annual gross profit margin were lower by 36.9%, 1.8% and 0.5% for SIA Baltika Latvija, Russian group entities and Baltika Tailor respectively the recoverable amount would have been equal to the carrying amount (31 December 2013: respectively 44.0%, 1.8%, 2.4%).

NOTE 11 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31 Dec 2014	31 Dec 2013
Up to 1 year	4,596	4,738
1-5 years	4,574	5,506
Over 5 years	1,382	2,110
Total	**10,552**	**12,354**

Operating lease expenses arise from lease of stores, production facility and with disposal of real-estate from lease of the head-office. The lease agreements for stores are predominantly not binding for long-term and can be terminated mostly less than 12-months notice.

The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements which stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation. In 2014, operating lease payments amounted to 9,576 thousand euros (2013: 9,738 thousand euros) (Note 18-20).

Finance lease – the Group as the lessee

	Machinery and equipment	Other fixtures	Total
At 31 December 2012			
Acquisition cost	**1,024**	**278**	**1,302**
Accumulated depreciation	-829	-101	-930
Net book amount	**195**	**177**	**372**
Additions	295	0	**295**
Depreciation	-65	-30	**-95**
At 31 December 2013			
Acquisition cost	**1,244**	**273**	**1,517**
Accumulated depreciation	-819	-126	-945
Net book amount	**425**	**147**	**572**
Additions	143	0	**143**
Depreciation	-137	-24	**-161**
At 31 December 2014			
Acquisition cost	**1,384**	**273**	**1,657**
Accumulated depreciation	-955	-148	-1,103
Net book amount	**429**	**125**	**554**

Detailed information on minimum finance lease payments by maturity is disclosed in Note 3. The carrying amounts of finance lease liabilities at the balance sheet date are disclosed in Note 12.

In 2014, the Group settled finance lease payments in the amount of 63 thousand euros (2013: 39 thousand euros).

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NOTE 12 Borrowings

	31 Dec 2014	31 Dec 2013
Current borrowings		
Current portion of long-term bank loans (Note 3)	1,809	2,341
Current bank loans (Note 3)	828	652
Current finance lease liabilities (Note 3)	55	39
Other current loans (Note 3)	0	126
Total	**2,692**	**3,158**
Non-current borrowings		
Non-current bank loans (Note 3)	1,379	2,031
Non-current finance lease liabilities (Note 3)	181	116
Convertible bonds (Note 26, 3)	3,024	24
Total	**4,584**	**2,171**
Total borrowings	**7,276**	**5,329**

As at 31 December 2014 there were no unamortised transactions costs (31 December 2013: 3 thousand euros).

During the reporting period, the Group made loan repayments in the amount of 1,096 thousand euros (2013: 2,280 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 423 thousand euros (2013: 339 thousand euros), including 79 thousand euros (2013: 48 thousand euros) interest expense from borrowings or convertible bonds to related party (Note 15). Group´s overdraft facilities with the banks were used in the amount of 1,653 thousand euros as at 31 December 2014 (31 December 2013: 1,566 thousand euros).

Changes in 2014

In the reporting period the Group signed an annex under an existing facility agreement, which prolonged repayment dates for some loans and increased the overdraft limit in the amount of 1,4 million euros. The same annex provides the overdraft increase and decrease in the amount of 500 thousand according to the seasonality.

On 28 July 2014 the Group issued J-bonds, which increased long-term borrowings by 3,000 thousand euros. See more in Note 15.

In addition the repayment date of a separate overdraft facility agreement was prolonged for one year in the fourth quarter.

In December the Group repaid the loan and interests in the total amount of 135 thousand euros to a related party.

Changes in 2013

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

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

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

In December a loan agreement with a related party was signed, with existing obligations converted into loan in the amount of 126 thousand euros with an interest rate of 7% (Note 26).

In August H-bonds were converted into shares. See more in Note 15.

As at 31 December 2014 and 31 December 2013 all borrowings at nominal value were denominated in EUR.

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Interest carrying loans of the Group as at 31 December 2014

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month Eonia)	4,016	EURIBOR or EONIA +4,43%
Borrowings at fixed interest rate (Note 26)	3,000	6.50%
Total	**7,016**	

Interest carrying loans of the Group as at 31 December 2013

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month Euonia)	5,024	EURIBOR or EONIA +4,36%
Borrowings at fixed interest rate (Note 26)	126	7.00%
Total	**5,150**	

The loan contracts of the Group include several covenants that may require early repayment of loans if the borrower does not fulfil the terms specified in the contract including:

- requirement to equity level;
- limited rights for incurring additional liabilities;
- limited rights for paying dividends and deciding to issue share capital;
- required ratios calculated on financial data etc.

The Group's collaterals for bank borrowings

As at 31 December 2014 the bank borrowings were secured with following asset types:

- commercial pledge to movables;
- trademarks;
- shares of the subsidiaries;
- cash equivalents on the bank accounts

As at 31 December 2014 carrying amount of assets pledged was 16,105 thousand euros, including inventories in amount of 11,890 thousand euros, property, plant and equipment in amount of 2,701 thousand euros, intangible assets in amount of 1,078 thousand euros and cash on the bank accounts 436 thousand euros.

As at 31 December 2013 carrying amount of assets pledged was 14,486 thousand euros, including inventories in amount of 11,031 thousand euros, property, plant and equipment in amount of 2,316 thousand euros, intangible assets in amount of 956 thousand euros and cash on the bank accounts 183 thousand euros.

Bank loans set certain level to financial ratios for the Group. As at 31 December 2014 and 31 December 2013 Baltika, was not compatible with some of the terms and conditions of the loan agreement, but the bank has confirmed that the loan will not become due and payable prematurely.

For additional information also see Note 3.

NOTE 13 Trade and other payables

	31 Dec 2014	31 Dec 2013
Trade payables (Note 3)	3,969	4,966
Tax liabilities, thereof	1,463	1,352
Personal income tax	252	228
Social security tax and unemployment insurance premium	581	539
Value added tax	578	541
Corporate income tax liability	20	17
Other taxes	32	27
Payables to employees[1]	1,030	1,088
Other accrued expenses (Note 3)	1	2
Customer prepayments	137	20
Other current payables	119	75
Total	**6,719**	**7,503**
Non-current liabilities		
Other liabilities	83	0

[1]Payables to employees consist of accrued wages, salaries and vacation accrual.

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Tax authorities are entitled to check the Group's tax accounting up to within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. The tax legislation of the countries the Group is operating which was enacted or substantively enacted at the end of the reporting period may be subject to varying interpretations. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

Trade payables and other accrued expenses in denominated currency

	31 Dec 2014	31 Dec 2013
EUR (euro)	2,885	3,526
USD (US dollar)	981	1,189
LTL (Lithuanian lit)	62	71
GBP (British pound)	37	66
RUB (Russian rouble)	5	21
LVL (Latvian lat)	0	71
UAH (Ukrainian hryvnia)	0	24
Total	**3,970**	**4,968**

For additional information also see Note 3.

NOTE 14 Provisions

	Short-term provisions
Balance 31 Dec 2013	**0**
Formation client bonus reserve	300
Balance 31 Dec 2014	**300**

Short description of the provision

During the reporting year Baltika introduced a new loyal customer program "AndMore" in Baltic states, that unified Baltika brand´s customer base and customer discount logic. The program was introduced by stages in different countries; web-shop was included by the end of the year.

"AndMore" motivates clients by allowing them to earn future discount on purchases made today (bonus euros). Accumulated bonuses are valid for six months from the customer´s last purchase. Programs conditions are described in detail on company´s website.

Used assumptions

As at 31 December 2014 the Group has recognized client bonus provision in the amount of 300 thousand euros. The Group has used existing statistics that enables to characterize customer´s behaviour of the bonus usage: earnings, usage and expiration.

The provision has been formed based on the earned, but not yet used, bonuses and corrected with the probability of the expiry. Probability has been assessed based on existing customer behaviour statistics.

The first statistical data that could be used for assessments formed in the fourth quarter, when the first six-month validity range in the first AndMore implementing country ended.

See also Note 17.

NOTE 15 Equity

Share capital

	31 Dec 2014	31 Dec 2013
Share capital	8,159	8,159
Number of shares (pcs)[1]	40,794,850	40,794,850
Nominal value of shares (EUR)	0.20	0.20

As at 31 December 2014 and 31 December 2013 shares comprise only ordinary shares, which are listed on the Tallinn Stock Exchange.

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Change in the number of shares

	Number of shares
Number of shares 31 December 2012	**35,794,850**
Issued (bond conversion)	5,000,000
Number of shares 31 December 2013	**40,794,850**
Number of shares 31 December 2014	**40,794,850**

As at 31 December 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.

Changes in share capital

Changes in 2013

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

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

Convertible bonds and share options

	Issue date	Bond conversion period	Number of convertible bonds 31 Dec 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
J-Bond	28 July 2014	15 July 2017 - 30 July 2017	600	0

- I-bonds

The annual general meeting of shareholders held on 20 April 2012 decided to issue 2,350,000 convertible bonds (I-bond) with the nominal value 0.01 euros. Each bond gives its owner the right to subscribe one share of the Company with a nominal value of 0.20 euros. The share subscription price is 0.36 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 01 July 2015 until 31 December 2015. The bonds were issued to the management of Baltika Group companies.

The consideration of I-bonds in the amount of 24 thousand euros is recognised under "Borrowings" in non-current liabilities as at 31 December 2014 and 31 December 2013 (Note 12).

The accounting policies described in IFRS 2 have been applied to account for the I-bonds. During 2014, the fair value of employee services received under the share options programme was recognised as payroll expenses and a respective increase of share premium in owner's equity, amounted to 125 thousand euros (2013: 125 thousand euros). See also Note 20.

The fair value of the services (employee contribution) received by the entity from the employees in exchange for the shares, was determined by reference to the fair value of the convertible bonds granted. The fair value of I-bonds was valued by Management. The Black-Scholes option pricing model was used in valuing the convertible bonds. The following parameters were used in determination of the price of the instrument: share price at the date prior to the grant date, exercise price, weighted average share price, expected volatility by a reference to the history of volatility based on the history of fluctuations of the market prices of the share and the expected life of the option. The fair value of the services was 0.17 euro per one convertible I-bond.

- J-bonds

The annual general meeting of shareholders held on 28 April 2014 decided to issue 600 convertible bonds (J-bond) with the nominal value 5,000 euros. Each bond gives its owner the right to subscribe 10,000 shares with a nominal value of 0.20 euros. The share subscription price is 0.50 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 15 July 2017 until 30 July 2017. The annual interest of bonds is 6.5%. The mentioned convertible bonds were partly issued to a related party (510 convertible bonds in the amount of 2,550 thousand euros), a shareholder with significant influence – KJK Fund, Sicav-SIF.

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Reserves

	31 Dec 2014	31 Dec 2013
Statutory reserve	1,182	1,182

Shareholders as at 31 December 2014

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	6,430,845	15.76%
3. BMIG OÜ*	4,750,033	11.64%
4. Skandinaviska Enskilda Banken Ab clients	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,604,000	3.93%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	746,331	1.83%
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	9,920,417	24.33%
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 Ab clients	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%**

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

The 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.

Retained earnings

As in 2012 a reduction of share capital was conducted through a simplified procedure, according to the Commercial Code, a restriction applies to the distribution of dividends for up to three years.

NOTE 16 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 and wholesale. 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 (loss) is an internal measure used in the internally generated reports to assess the performance of the segments and comprises segment's gross profit (loss) 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.

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Management Board also monitors Group´s results by shops and brands. The managing of the Group is done shop-by-shop basis, aggregated on a matrix basis for different decision purposes. For presenting segment reporting the Management Board has chosen aggregation on geographical and sales-channel bases. Primarily Management Board decisions, which are connected to investing and resource allocation, are based on the segments disclosed in this Note.

Data of the revenue, profit (loss), depreciation and amortisation of the segments are disclosed for continued operations. 2013 results are restated as results from Ukrainian market are shown as discontinued operations.

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

	Retail, Baltic region	Retail, Eastern Europe	Wholesale[1]	Total segments
2014 and at 31 December 2014				
Revenue (from external customers), Note 17	42,163	7,730	5,703	55,596
Segment profit (loss)[2]	8,660	-104	1,233	9,789
Incl. depreciation and amortisation	-610	-164	-31	-805
Inventories of segments	4,967	950	0	5,917
2013 and at 31 December 2013				
Revenue (from external customers), Note 17	39,152	8,916	3,760	51,828
Segment profit (loss)[2]	8,589	-307	1,000	9,282
Incl. depreciation and amortisation	-620	-278	-7	-905
Inventories of segments	4,620	2,197	0	6,817
thereof inventories of discontinued operations	*0*	*979*	*0*	*979*

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

Reconciliation of segment operating profit to consolidated operating profit

	2014	2013
Total segment profit	9,789	9,282
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-6,063	-5,329
Administrative and general expenses	-2,905	-2,869
Other operating income (expenses), net	-168	-100
Operating profit	**653**	**984**

[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 inventories on consolidated statement of financial position

	31 Dec 2014	31 Dec 2013
Total inventories of segments	5,917	6,817
Inventories in Parent company and production company	7,498	6,934
Inventories on statement of financial position	**13,415**	**13,751**

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Non-current assets (except for financial assets and deferred tax assets) by location of assets

	31 Dec 2014	31 Dec 2013
Retail, Baltic region	2,192	1,860
Retail, Eastern Europe	1,183	2,305
Wholesale	208	4
Assets in parent company and production company	2,492	2,547
Total	**6,075**	**6,716**

NOTE 17 Revenue and client bonus reserve

	2014	2013
Sale of goods in retail channel	49,893	48,068
Sale of goods in wholesale, franchise and e-commerce channel	5,536	3,635
Other sales	167	125
Total	**55,596**	**51,828**

Sales by geographical (client location) areas

	2014	2013
Estonia	19,876	19,576
Lithuania	12,352	11,191
Latvia	11,887	10,159
Russia	8,764	9,494
Ukraine	901	12
Finland	851	792
Belarus	302	173
Spain	287	0
Germany	280	356
Other countries	96	75
Total	**55,596**	**51,828**

Client bonus reserve

In the reporting period the Group made a reserve for client bonuses. Reserve was assessed based on the earned, but not yet used, bonuses and corrected with the probability of the expiry.

The reserve was made in the amount of 300 thousand euros. For further information about the assumptions used to form a provision see Note 14.

NOTE 18 Cost of goods sold

	2014	2013
Materials and supplies	22,261	19,705
Payroll costs in production	3,425	3,158
Operating lease expenses (Note 11)	681	667
Other production costs	419	451
Depreciation of assets used in production (Note 9,10)	160	188
Change in allowance for inventories (Note 6)	-12	-118
Total	**26,934**	**24,051**

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NOTE 19 Distribution costs

	2014	2013
Payroll costs	10,595	9,787
Operating lease expenses (Note 11)	8,428	8,631
Advertising expenses	1,479	1,320
Depreciation and amortisation (Note 9,10)	949	1,133
Fuel, heating and electricity costs	612	635
Fees for card payments	400	396
Municipal services and security expenses	280	203
Travel expenses	236	258
Consultation and management fees	210	169
Information technology expenses	176	187
Communication expenses	137	140
Agency fees	129	35
Other sales expenses[1]	1,005	930
Total	**24,636**	**23,824**

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

For additional information also see Note 26.

NOTE 20 Administrative and general expenses

	2014	2013
Payroll costs[1]	1,316	1,283
Operating lease expenses (Note 11)	467	440
Information technology expenses	264	258
Bank fees	218	227
Management, juridical-, auditor´s and other consulting fees	130	113
Depreciation and amortisation (Note 9,10)	105	141
Fuel, heating and electricity expenses	101	102
Office materials	49	35
Sponsorship, gifts, donations	21	56
Other administrative expenses[2]	234	214
Total	**2,905**	**2,869**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount of 125 thousand euros (2013: 125 thousand euros), see Note 21, 15.
[2]Other administrative expenses consist of insurance, communication, travel, training, municipal and security expenses and other services.

For additional information see Note 26.

NOTE 21 Wages and salaries

	2014	2013
Payroll costs	11,556	10,689
Social security costs	3,655	3,414
Payroll expenses related to share options (Note 20)	125	125
Total	**15,336**	**14,228**

NOTE 22 Other operating income and expenses

	2014	2013
Gain (loss) from sale, impairment of PPE and non-current assets	13	-14
Other operating income	32	137
Foreign exchange losses	-104	-206
Fines, penalties and tax interest	-5	-15
Other operating expenses	-104	-2
Total	**-168**	**-100**

For additional information also see Note 9, 10.

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NOTE 23 Finance income and costs

	2014	2013
Interest income	0	6
Interest costs	-423	-339
Other finance costs	-37	-49
Total	**-460**	**-382**

For additional information also see Note 25.

NOTE 24 Income tax

	2014	2013
Income tax expense	53	16
Deferred income tax expense (Note 7)	74	143
Total income tax expense	**127**	**159**

Income tax calculated on the profits of the Group's subsidiaries based on the nominal tax rate differs from effective income tax expense for the reasons presented below.

Income tax by regions for the year ended at 31 December 2014

	Baltic region	Eastern European region	Total
Profit (loss) before tax	-477	670	193
Average nominal tax rate	0-15%	20%	0-20%
Tax calculated from profit (loss) at the nominal tax rate	101	134	235
The effect of income/expenses not deductible for tax purposes	-9	51	42
Utilisation of tax losses carried forward/additions of tax profits	-74	-142	-216
Changes in recognised balance sheet deferred tax assets	101	-27	74
Changes in currency rates	0	-6	-6
Income tax expense	**18**	**37**	**55**
Deferred income tax expense (income) (Note 7)	**101**	**-27**	**74**
Changes in off balance sheet deferred tax assets (- decrease)	0	-520	-520

Income tax by regions for the year ended at 31 December 2013

	Baltic region	Eastern European region	Total
Profit (loss) before tax	-178	780	602
Average nominal tax rate	0-15%	20%	0-20%
Tax calculated from profit (loss) at the nominal tax rate	146	156	302
The effect of income/expenses not deductible for tax purposes	-21	-42	-63
Utilisation of tax losses carried forward/additions of tax profits	-125	-45	-170
Changes in recognised balance sheet deferred tax assets	143	0	143
Changes in currency rates	0	-53	-53
Income tax expense	**0**	**16**	**16**
Deferred income tax expense (income) (Note 7)	**143**	**0**	**143**
Changes in off balance sheet deferred tax assets (-decrease)	0	-209	-209

NOTE 25 Earnings per share

Basic earnings per share

		2014	2013
Weighted average number of ordinary shares (thousand)	pcs	40,795	38,644
Net profit from continuing operations		66	443
Net loss from discontinued operations		-1,329	-341
Basic earnings per share	**EUR**	**-0.03**	**0.00**
Basic earnings per share (continuing operations)	EUR	0.00	0.01
Basic earnings per share (discontinued operations)	EUR	-0.03	-0.01

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Diluted earnings per share

		2014	2013
Net profit from continuing operations		66	443
Net loss from discontinued operations		-1,329	-341
Interest expense on convertible debt		83	0
Profit (loss) used to determine diluted earnings per share		**-1,180**	**102**
Weighted average number of ordinary shares (thousands)	pcs	40,795	38,644
Adjustments for:			
-weighted average of I-bonds that have a dilutive effect (thousand)		0	701
- weighted average of J-bonds that have a dilutive effect (thousand)		2,581	0
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**pcs**	**43,376**	**39,345**
Diluted earnings per share	**EUR**	**-0.03**	**0.00**
Diluted earnings per share (continuing operations)	EUR	0.00	0.01
Diluted earnings per share (discontinued operations)	EUR	-0.03	-0.01

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The company had two types of potential ordinary shares (Note 15):

- I-bonds in 2013;
- J-bonds in 2014.

In 2014 J-bonds assumed to have been converted into ordinary shares and the net profit (loss) is adjusted by eliminating the interest expense.

For the share options (I-bonds), a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company´s share) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares, calculated as above, was compared with the number of shares that would have been issued assuming the exercise of the share options. In 2014 I-bonds were not dilutive and in 2013 I-bonds were dilutive.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2014 was 0.49 euros (2013: 0.74 euros).

NOTE 26 Related parties

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the financial and management decisions of the other one in accordance with IAS 24, Related Party Disclosures. Not only the legal form of the transactions and mutual relationships, but also their actual substance has been taken into consideration when defining related parties.

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

- owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 15);
- members of the Management Board and the Supervisory Council[1];
- immediate family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Council and immediate family members;

[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.

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Transactions with related parties

	2014 Purchases	2013 Purchases
Services	355	238
Total	**355**	**238**

In 2014 and 2013 AS Baltika bought mostly management, communication and other services from related parties. See also Notes 19, 20.

Balances with related parties

	31 Dec 2014	31 Dec 2013
Other current loans and interests (Note 12, 13)	2,639	145
Trade payables (Note 13)	31	50
Total	**2,670**	**195**

All transactions in 2014 as well as in 2013 and balances with related parties as at 31 December 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 immediate family members. As at 31 December 2014 and 31 December 2013 the balances from borrowings, interests are partly with counterparty, who is also a shareholder that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	2014	2013
Salaries of the members of the Management Board	380	338
Remuneration of the members of the Supervisory Council	18	18
Total	**398**	**356**

As at 31 December 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.

On January 30 2015 the Supervisory Board of AS Baltika decided to suspend Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave.

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

The termination benefits for the members of the Management Board are limited to 3-18 month's salary expense (no taxes included) in the amount that is approximately 213 thousand euros (2013: 198 thousand euros) in total in case of premature termination.

In 2014 convertible bonds (J-bonds) were partly issued to related party. Share options I-bonds are partly issued to related parties (Note 12, 15).

NOTE 27 Subsidiaries

Subsidiary	Location	Activity	Holding as at 31 Dec 2014	Holding as 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[2]	Ukraine	Retail	-	100%
OOO „Olivija"[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]In second quarter 2014 Ukrainian subsidiary was sold.
[3]OOO "Olivija" represents Russian consolidation group, which also includes OOO „Plazma" and OOO „Stelsing".

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Changes in 2014

In 2014 the Group sold its retail subsidiary “Baltika Retail Ukraina Ltd”, see detailed info in Note 28.

Changes in 2013

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

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

NOTE 28 Discontinued operations

Baltika AS decided to exit Ukrainian retail market to reduce economic and political risks.

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. Previously Ukrainian subsidiary´s results were reported as a part of the Eastern Europe segment.

On 29 April 2014 Baltika signed an agreement by which Baltika Retail Ukraina Ltd (BRU) was sold to Osaühing Ellipse Group. BRU will continue as Baltika’s franchise partner and cooperation agreement was signed on 29 April for the next five years.

In the first quarter, prior to sales transaction, Baltika revalued the Ukrainian assets completely down (in the amount of 1,095 thousand euros).

Analysis of the results of discontinued operations, and the result recognised on the re-measurement of assets is as follows:

	2014	2013
Discontinued operation		
Revenue	1,531	6,525
Expenses	-1,896	-6,709
Other operating expense	-271	-149
Loss before income tax	**-636**	**-333**
Income tax expense	0	-8
Net loss	**-636**	**-341**
Loss from discontinued operations and impairment of assets connected to discontinued operations	-693	0
Net loss for the reporting period from discontinued operations	**-1,329**	**-341**

Consolidated cash-flow of the discontinued operation

	2014	2013
Net cash generated (used in) from operating activities	-180	285
Net cash used in investing activities	-8	-206
Total cash flows	**-188**	**79**
Cash and cash equivalents at the beginning of the period	**213**	**144**
Effect of exchange gains on cash and cash equivalents	-25	-10
Cash and cash equivalents at the end of the period	**0**	**213**
Change in cash and cash equivalents	**-213**	**69**

NOTE 29 Supplementary disclosures on the parent company of the Group

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

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Statement of financial position of the parent company

	31 Dec 2014	31 Dec 2013
ASSETS		
Current assets		
Cash and cash equivalents	113	42
Trade and other receivables	5,035	8,687
Inventories	7,721	6,850
Total current assets	**12,869**	**15,579**
Non-current assets		
Investments in subsidiaries	2,976	5,673
Other non-current receivables	419	4,064
Property, plant and equipment	375	322
Intangible assets	1,602	1,472
Total non-current assets	**5,372**	**11,531**
TOTAL ASSETS	**18,241**	**27,110**
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	2,648	3,119
Trade and other payables	16,865	19,647
Total current liabilities	**19,513**	**22,766**
Non-current liabilities		
Borrowings	4,481	2,054
Other liabilities	83	0
Total non-current liabilities	**4,564**	**2,054**
TOTAL LIABILITIES	**24,077**	**24,820**
EQUITY		
Share capital at par value	8,159	8,159
Share premium	809	684
Statutory reserve	1,182	1,182
Retained losses	-15,986	-7,735
TOTAL EQUITY	**-5,836**	**2,290**
TOTAL LIABILITIES AND EQUITY	**18,241**	**27,110**

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Statement of comprehensive income of the parent company

	2014	2013
Revenue	36,169	35,720
Cost of goods sold	-28,224	-27,977
Gross profit	**7,945**	**7,743**
Distribution costs	-5,780	-5,195
Administrative and general expenses	-2,814	-2,849
Other operating income	14	15
Other operating expenses	-4,040	-1,874
Operating profit (loss)	**-4,675**	**-2,160**
Dividend income	193	0
Impairment and reversal of investments and receivables from subsidiaries	-2,561	-2,861
Interest expenses, net	-1,208	-925
Net loss for the financial year	**-8,251**	**-5,946**
Total comprehensive income loss	**-8,251**	**-5,946**

2014 Consolidated Annual Report (in thousands of euros)

Cash flow statement of the parent company

	2014	2013
Operating activities		
Operating loss	-4,675	-2,160
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	289	299
Other non-monetary expenses	1,812	269
Changes in trade and other receivables	5,794	-593
Changes in trade and other payables	-2,745	3,773
Changes in inventories	-871	-1,531
Interest paid	-1,162	-930
Net cash used in operating activities	**-1,603**	**-873**
Investing activities		
Acquisition of non-current assets	-378	-307
Proceeds from disposal of non-current assets	9	80
Dividends received	193	0
Net cash used in investing activities	**-176**	**-227**
Financing activities		
Received borrowings	0	1,000
Repayments of borrowings	-1,222	-2,280
Change in bank overdraft	86	1,566
Repayments of finance lease	-14	-8
Transactions with bonds	0	-6
Proceeds from bond issue	3,000	0
Net cash generated from financing activities	**1,850**	**272**
Total cash flows	**71**	**-828**
Cash and cash equivalents at beginning of year	**42**	**870**
Cash and cash equivalents at end of year	**113**	**42**
Change in cash and cash equivalents	**71**	**-828**

2014 Consolidated Annual Report (in thousands of euros)

Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2012	**7,159**	**63**	**1,182**	**-1,789**	**6,615**
Total comprehensive loss	0	0	0	-5,946	-5,946
Equity-settled share-based transactions	0	125	0	0	125
Conversion of bonds to share capital	1,000	496	0	0	1,496
Balance at 31 December 2013	**8,159**	**684**	**1,182**	**-7,735**	**2,290**
Book value of holdings under control or significant influence					-5,673
Value of holdings under control or significant influence, calculated under equity method					17,181
Adjusted unconsolidated equity at 31 December 2013					**11,508**
Total comprehensive loss	0	0	0	-8,251	-8,251
Equity-settled share-based transactions	0	125	0	0	125
Balance at 31 December 2014	**8,159**	**809**	**1,182**	**-15,986**	**-5,836**
Book value of holdings under control or significant influence					-2,976
Value of holdings under control or significant influence, calculated under equity method					11,713
Adjusted unconsolidated equity at 31 December 2014					**8,737**

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Baltika

We have audited the accompanying consolidated financial statements of AS Baltika and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Baltika and its subsidiaries as of 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu	Helen Teder
Auditor's Certificate No. 325	Auditor's Certificate No. 645

25 March 2015

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

LOSS ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net loss for the year ended at 31 December 2014 in the amount of -1,263 thousand euros to be covered by retained earnings:

Retained earnings	-1,263
Total	**-1,263**

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY COUNCIL

The Management Board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2014.

The Supervisory Council of AS Baltika has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated financial statements, the Management Board's recommendation for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the annual shareholders meeting.

Meelis Milder
Chairman of the Management Board
26 March 2015

Maire Milder
Member of the Management Board
26 March 2015

Andrew J. D. Paterson
Member of the Management Board
26 March 2015

Kati Kusmin
Member of the Management Board
26 March 2015

Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Council
26 March 2015

Tiina Mõis
Member of the Supervisory Council
26 March 2015

Reet Saks
Member of the Supervisory Council
26 March 2015

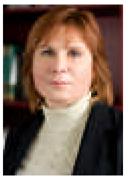
Lauri Kustaa Äimä
Member of the Supervisory Council
26 March 2015

Valdo Kalm
Member of the Supervisory Council
26 March 2015

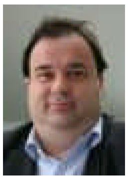
AS BALTIKA SUPERVISORY COUNCIL

JAAKKO SAKARI MIKAEL SALMELIN
Chairman of Supervisory Council since 23 May 2012, member of the Supervisory Council since 21 June 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 Dec 2014: 0

TIINA MÕIS
Member of the Supervisory Council since 03 May 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 Dec 2014: 977,837 shares (on AS Genteel account)[1]



REET SAKS
Member of the Supervisory Council since 25 March1997
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 Dec 2014: 0



LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18 June 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 PRFoods,
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 Dec 2014: 24 590 shares (on Kaima Capital Eesti OÜ account)[1]

VALDO KALM
Member of the Supervisory Council since 20 April 2012
Chairman of the Board of AS Eesti Telekom
Automation and telemechanics, Tallinn University of Technology
Baltika shares held on 31 Dec 2014: 0

[1]Members of the Supervisory Council of AS Baltika own shares through the companies AS Genteel and Kaima Capital Eesti OÜ (see Corporate governance report section “Supervisory Council”).

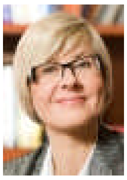
AS BALTIKA MANAGEMENT BOARD

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 Dec 2014: 743,531 shares[1]

MAIGI PÄRNIK-PERNIK
Member of the Management Board, (suspended from Chief Financial Officer responsibilities during maternity leave)
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika's shares 31 Dec 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 Dec 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 Dec 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
Faculty of Economics, Tallinn University of Technology
Baltika shares 31 Dec 2014: 0

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

2014 Consolidated Annual Report (in thousands of euros)

Revenues (not consolidated) by EMTAK (the Estonian classification of economic activities)

Code	Definition	2014	2013
46421	Wholesale of clothing and footwear	35,196	35,008
46151	Brokerage of furniture, other products	577	389
46191	Wholesale of other products	163	151
70221	Management and support services	199	141
14131	Other sewing services	30	25
68201	Other rental revenue	4	6
Total		**36,169**	**35,720**

[*] *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*