APRANGA GROUP

2 April 2015
Vilnius

## CONFIRMATION OF THE COMPANY'S RESPONSIBLE PERSONS

Hereby we confirm, that by our knowledge Consolidated Financial Statements for the year 2014 prepared in accordance with International Financial Reporting Standards are true and fairly present assets, liabilities, financial position, profit or loss and cash flow of APB Apranga, as well as of Apranga Group consolidated companies.

As well we confirm that by our knowledge Consolidated Annual Report for the year 2014 includes a fair review of the development and performance of the business and the position of APB Apranga and Apranga Group in relation to the description of the main risks and contingencies faced thereby.

Apranga Group General Manager
Rimantas Perveneckas

Apranga Group Chief Financial Officer
Saulius Bačauskas

**APB APRANGA**

Consolidated and Company’s Financial Statements,
Consolidated Annual Report and
Independent Auditor’s Report

for the year ended 31 December 2014

## TABLE OF CONTENTS

Translation note:

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian language. 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 the accompanying documents takes precedence over this translation.

## Independent Auditor's Report

To the shareholders of APB APRANGA

### Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of APB APRANGA ("the Company") and its subsidiaries ("the Group") set out on pages 5 to 37, which comprise the stand-alone and consolidated balance sheets as of 31 December 2014 and the stand-alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

*Management's responsibility for the financial statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania*
*T: +370 (5) 239 2300, F:+370 (5) 239 2301, Email: vilnius@lt.pwc.com, www.pwc.com/lt*

## Report on other legal and regulatory requirements

Furthermore, we have read the consolidated annual report for the year ended 31 December 2014 set out on pages 38 to 76 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2014.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Rasa Selevičienė
Auditor's Certificate No.000504

Vilnius, Republic of Lithuania
2 April 2015

## STATEMENT OF COMPREHENSIVE INCOME

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | Year ended 31 December | | Year ended 31 December | |
| | **Note** | **2014** | **2013** | **2014** | **2013** |
| Revenue | **4** | 505 077 | 466 673 | 225 183 | 201 484 |
| Cost of sales | **5** | (268 605) | (247 702) | (141 794) | (122 928) |
| **Gross profit** | | **236 472** | **218 971** | **83 389** | **78 556** |
| Selling costs | **5** | (163 258) | (147 110) | (62 035) | (56 064) |
| General and administrative expenses | **5** | (29 282) | (28 322) | (22 211) | (21 585) |
| Other income | **6** | 2 214 | 1 963 | 38 092 | 38 975 |
| Net foreign exchange gain (loss) | | ( 83) | ( 29) | ( 122) | ( 26) |
| **Operating profit (loss)** | | **46 063** | **45 473** | **37 113** | **39 856** |
| Finance costs | **7** | ( 274) | ( 127) | ( 321) | ( 198) |
| **Profit (loss) before income tax** | | **45 789** | **45 346** | **36 792** | **39 658** |
| Income tax credit (expense) | **8** | (7 051) | (7 218) | (1 926) | (1 859) |
| **Profit (loss) for the year** | **11** | **38 738** | **38 128** | **34 866** | **37 799** |
| **Other comprehensive income** | | | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | | | |
| Currency translation difference | | ( 68) | ( 165) | - | - |
| **TOTAL COMPREHENSIVE INCOME** | | **38 670** | **37 963** | **34 866** | **37 799** |
| **Basic and diluted earnings (losses) per share (in LTL)** | **11** | **0,70** | **0,69** | **0,63** | **0,68** |

The notes on pages 9 to 37 are an integral part of these financial statements.

These financial statements were approved by Management Board on 2 April 2015 and signed by:

Rimantas Perveneckas
General Director

Saulius Bačauskas
Chief Financial Officer

## BALANCE SHEET

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | As at 31 December | | As at 31 December | |
| | Note | 2014 | 2013 | 2014 | 2013 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | 93 111 | 80 852 | 55 436 | 51 363 |
| Intangible assets | 13 | 2 233 | 1 507 | 1 240 | 238 |
| Investments in subsidiaries | 14 | - | - | 16 110 | 16 101 |
| Prepayments | 17 | 1 154 | 1 201 | 273 | 296 |
| Trade and other receivables | 20 | 70 | 104 | 70 | 104 |
| | | **96 568** | **83 664** | **73 129** | **68 102** |
| **Current assets** | | | | | |
| Inventories | 15 | 107 675 | 88 652 | 59 501 | 48 573 |
| Available for sale financial assets | 18 | 12 993 | 16 271 | 12 993 | 16 271 |
| Non-current assets held for sale | 16 | 1 118 | 1 118 | 1 118 | 1 118 |
| Prepayments | 17 | 4 465 | 3 010 | 3 473 | 2 665 |
| Trade and other receivables | 20 | 3 802 | 2 799 | 36 498 | 27 533 |
| Cash and cash equivalents | 21 | 7 541 | 8 275 | 2 324 | 1 293 |
| | | **137 594** | **120 125** | **115 907** | **97 453** |
| **TOTAL ASSETS** | | **234 162** | **203 789** | **189 036** | **165 555** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Ordinary shares | 22 | 55 292 | 55 292 | 55 292 | 55 292 |
| Legal reserve | 23 | 5 529 | 5 529 | 5 529 | 5 529 |
| Translation difference | | ( 182) | ( 188) | - | - |
| Retained earnings | | 97 544 | 86 526 | 64 908 | 57 688 |
| | | **158 183** | **147 159** | **125 729** | **118 509** |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 9 | 3 495 | 3 364 | 1 221 | 1 044 |
| Other liabilities | | 845 | 503 | 845 | 503 |
| | | **4 340** | **3 867** | **2 066** | **1 547** |
| **Current liabilities** | | | | | |
| Borrowings | 24 | 25 108 | 4 994 | 41 487 | 23 624 |
| Current income tax liability | | 889 | 2 830 | 60 | 1 586 |
| Trade and other payables | 25 | 45 642 | 44 939 | 19 694 | 20 289 |
| | | **71 639** | **52 763** | **61 241** | **45 499** |
| **Total liabilities** | | **75 979** | **56 630** | **63 307** | **47 046** |
| **TOTAL EQUITY AND LIABILITIES** | | **234 162** | **203 789** | **189 036** | **165 555** |

The notes on pages 9 to 37 are an integral part of these financial statements.

These financial statements were approved by Management Board on 2 April 2015 and signed by:

Rimantas Perveneckas
General Director

Saulius Bačauskas
Chief Financial Officer

## STATEMENTS OF CHANGES IN EQUITY

### GROUP

| | Note | Share capital | Legal reserve | Translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | | **55 292** | **4 612** | **( 45)** | **79 748** | **139 607** |
| **Comprehensive income** | | | | | | |
| Profit for the year 2013 | | | | | 38 128 | 38 128 |
| **Other comprehensive income** | | | | | | |
| Currency translation difference | | | | ( 143) | ( 22) | ( 165) |
| **Total comprehensive income** | | **-** | **-** | **( 143)** | **38 106** | **37 963** |
| **Transactions with owners** | | | | | | |
| Transfer to legal reserve | **23** | | 917 | | ( 917) | - |
| Dividends paid | **10, 23** | | | | (30 411) | (30 411) |
| **Balance at 31 December 2013** | | **55 292** | **5 529** | **( 188)** | **86 526** | **147 159** |
| **Comprehensive income** | | | | | | |
| Profit for the year 2014 | | | | | 38 738 | 38 738 |
| **Other comprehensive income** | | | | | | |
| Currency translation difference | | | | 6 | ( 74) | ( 68) |
| **Total comprehensive income** | | **-** | **-** | **6** | **38 664** | **38 670** |
| **Transactions with owners** | | | | | | |
| Dividends paid | **10, 23** | | | | (27 646) | (27 646) |
| **Balance at 31 December 2014** | | **55 292** | **5 529** | **( 182)** | **97 544** | **158 183** |

### COMPANY

| | Note | Share capital | Legal reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2013** | | **55 292** | **4 612** | **51 217** | **111 121** |
| **Comprehensive income** | | | | | |
| Profit for the year 2013 | | | | 37 799 | 37 799 |
| **Transactions with owners** | | | | | |
| Transfer to legal reserve | **23** | | 917 | ( 917) | - |
| Dividends paid | **10, 23** | | | (30 411) | (30 411) |
| **Balance at 31 December 2013** | | **55 292** | **5 529** | **57 688** | **118 509** |
| **Comprehensive income** | | | | | |
| Profit for the year 2014 | | | | 34 866 | 34 866 |
| **Transactions with owners** | | | | | |
| Dividends paid | **10, 23** | | | (27 646) | (27 646) |
| **Balance at 31 December 2014** | | **55 292** | **5 529** | **64 908** | **125 729** |

The notes on pages 9 to 37 are an integral part of these financial statements.

These financial statements were approved by Management Board on 2 April 2015 and signed by:

Rimantas Perveneckas
General Director

Saulius Bačauskas
Chief Financial Officer

## STATEMENTS OF CASH FLOW

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | Year ended 31 December | | Year ended 31 December | |
| | Note | 2014 | 2013 | 2014 | 2013 |
| **OPERATING ACTIVITIES** | | | | | |
| Profit (loss) before income taxes | | 45 789 | 45 346 | 36 792 | 39 658 |
| Adjustments for: | | | | | |
| Depreciation and amortization | 5 | 19 215 | 18 620 | 8 942 | 8 130 |
| Impairment charge | 12 | ( 49) | 302 | ( 34) | 47 |
| Change in allowances for slow-moving inventories | 5 | 900 | 662 | 775 | 619 |
| (Gain) Loss on disposal of property, plant and equipment | | ( 23) | 4 | 7 | 4 |
| Write-off of property, plant and equipment | | 68 | 177 | 19 | 117 |
| Dividends income | 6 | - | - | (24 180) | (27 532) |
| Interest expenses, net of interest income | 6, 7 | ( 346) | ( 555) | ( 405) | ( 538) |
| | | **65 554** | **64 556** | **21 916** | **20 505** |
| Changes in operating assets and liabilities: | | | | | |
| Decrease (increase) in inventories | | (19 923) | (14 082) | (11 703) | (8 346) |
| Decrease (increase) in receivables | | (2 567) | ( 675) | (7 509) | (2 130) |
| Unrealized foreign exchange loss (gain) | | ( 68) | ( 165) | - | - |
| Increase (decrease) in payables | | 986 | (1 587) | ( 298) | ( 230) |
| **Cash generated from operations** | | **43 982** | **48 047** | **2 406** | **9 799** |
| Income taxes paid | | (8 861) | (9 291) | (3 289) | (2 358) |
| Interest paid | 7 | ( 274) | ( 127) | ( 321) | ( 198) |
| **Net cash from operating activities** | | **34 847** | **38 629** | **(1 204)** | **7 243** |
| **INVESTING ACTIVITIES** | | | | | |
| Interest received | | 699 | 907 | 805 | 967 |
| Dividends received | 6 | - | - | 24 180 | 27 532 |
| Loans granted | 26 | (16 000) | (49 500) | (65 531) | (91 067) |
| Loans repayments received | 26 | 16 000 | 57 500 | 63 134 | 94 195 |
| Purchases of property, plant and equipment and intangible assets | | (37 279) | (23 563) | (15 194) | (9 300) |
| Proceeds on disposal of property, plant and equipment | | 5 083 | 787 | 1 185 | 21 |
| Purchases of available-for-sale financial assets | 18 | (2 258) | (5 679) | (2 258) | (5 679) |
| Proceeds on disposal of available-for-sale financial assets | 18 | 5 647 | 5 761 | 5 647 | 5 761 |
| Investment in subsidiaries | | - | - | ( 9) | - |
| **Net cash used in investing activities** | | **(28 108)** | **(13 787)** | **11 959** | **22 430** |
| **FINANCING ACTIVITIES** | | | | | |
| Dividends paid | | (27 587) | (30 365) | (27 587) | (30 365) |
| Proceeds from borrowings | | 156 390 | 35 501 | 288 256 | 162 184 |
| Repayments of borrowings | | (133 390) | (35 501) | (267 507) | (167 192) |
| **Net cash from financing activities** | | **(4 587)** | **(30 365)** | **(6 838)** | **(35 373)** |
| **NET INCREASE (DECREASE) IN CASH AND BANK OVERDRAFTS** | | **2 152** | **(5 523)** | **3 917** | **(5 700)** |
| **CASH AND BANK OVERDRAFTS:** | | | | | |
| **AT THE BEGINNING OF THE PERIOD** | 21 | **3 281** | **8 804** | **(3 701)** | **1 999** |
| **AT THE END OF THE PERIOD** | 21 | **5 433** | **3 281** | **216** | **(3 701)** |

The notes on pages 9 to 37 are an integral part of these financial statements.

These financial statements were approved by Management Board on 2 April 2015 and signed by:

Rimantas Perveneckas
General Director

Saulius Bačauskas
Chief Financial Officer

## 1. GENERAL INFORMATION

APB Apranga, (hereinafter "the Company"), was incorporated and commenced its operations in March 1993 in Lithuania. The Company's main office is situated in Kirtimų str. 51, Vilnius, Lithuania. The Company has legal form of public limited liability company under the Law on Companies of Republic of Lithuania. The principal activity of the Company and its subsidiaries (hereinafter "the Group") is retail trade of apparel.

At 31 December the Company's shareholders were:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Number of shares** | **% of total ownership** | **Number of shares** | **% of total ownership** |
| UAB MG Baltic investment | 29 677 397 | 53,7 | 29 677 397 | 53,7 |
| Swedbank AS (Estonia) clients | 5 897 625 | 10,7 | 6 794 270 | 12,3 |
| UAB Minvista | 5 355 627 | 9,7 | 5 522 729 | 10,0 |
| Other | 14 361 311 | 26,0 | 13 297 564 | 24,0 |
| **Total** | **55 291 960** | **100,0** | **55 291 960** | **100,0** |

The ultimate parent company whose financial statements are available for public use is UAB Koncernas MG Baltic. The ultimate controlling individual of the Group is Mr. D. J. Mockus.

The Company is listed on Nasdaq Vilnius Stock Exchange.

At 31 December 2014 the Group consisted of the Company and the following its wholly owned subsidiaries:

| Name | Country | Headquarters | Principal activity |
|---|---|---|---|
| UAB Apranga LT | Lithuania | Kirtimu 51, Vilnius | Retail trade of apparel |
| UAB Apranga BPB LT | Lithuania | Kirtimu 51, Vilnius | Retail trade of apparel |
| UAB Apranga PLT | Lithuania | Kirtimu 51, Vilnius | Retail trade of apparel |
| UAB Apranga SLT | Lithuania | Kirtimu 51, Vilnius | Retail trade of apparel |
| UAB Apranga MLT | Lithuania | Kirtimu 51, Vilnius | Retail trade of apparel |
| SIA Apranga | Latvia | Elizabetes 51, Riga | Retail trade of apparel |
| SIA Apranga LV | Latvia | Elizabetes 51, Riga | Retail trade of apparel |
| SIA Apranga BPB LV | Latvia | Elizabetes 51, Riga | Retail trade of apparel |
| SIA Apranga PLV | Latvia | Elizabetes 51, Riga | Retail trade of apparel |
| SIA Apranga SLV | Latvia | Terbatas 30, Riga | Retail trade of apparel |
| SIA Apranga MLV | Latvia | Terbatas 30, Riga | Retail trade of apparel |
| OU Apranga[1] | Estonia | Pärnu mnt 10/Väike-Karja 12 Tallinn | Retail trade of apparel |
| OU Apranga Estonia | Estonia | Pärnu mnt 10/Väike-Karja 12 Tallinn | Retail trade of apparel |
| OU Apranga BEE | Estonia | Pärnu mnt 10/Väike-Karja 12 Tallinn | Retail trade of apparel |
| OU Apranga PB Trade | Estonia | Pärnu mnt 10/Väike-Karja 12 Tallinn | Retail trade of apparel |
| OU Apranga ST Retail | Estonia | Pärnu mnt 10/Väike-Karja 12 Tallinn | Retail trade of apparel |
| OU Apranga MDE | Estonia | Pärnu mnt 10/Väike-Karja 12 Tallinn | Retail trade of apparel |

[1] The Company directly owns 33.33% shares and indirectly through its subsidiary owns the rest 66.67% of shares (Note 14)

At 31 December the Group's number of stores was:

| | Total number of shops | | Shops, where premises are owned by Group | |
|---|---|---|---|---|
| **Country** | **2014** | **2013** | **2014** | **2013** |
| Lithuania | 97 | 92 | 6 | 7 |
| Latvia | 44 | 41 | - | - |
| Estonia | 20 | 15 | - | - |
| **Total** | **161** | **148** | **6** | **7** |

At 31 December 2014 the Group and the Company employed 1 876 and 770 people respectively (2013: 1 725 and 722 people respectively).

The shareholders of the Company have a statutory right to approve or not these financial statements and to require preparation of a new set of the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

These financial statements have been prepared under the historical cost convention, except for available for sale financial assets stated at fair value.

These financial statements comprise the Group's consolidated financial statements and the Company's separate financial statements.

### 2.2 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

International Financial Reporting Standards require that in preparing the financial statements, management of the Company and the Group make estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, except for the following:

#### *(a) Income taxes*

Tax authorities have right to examine accounting records of the Company and its Lithuanian subsidiaries at anytime during the 5 year period after the current tax year (the Latvian and Estonian subsidiaries - 3 and 7 year period after the current year respectively) and account for additional taxes and fines. In the opinion of the Company's management, currently there are no circumstances which would raise substantial liability in this respect to the Company and to the Group.

#### *(b) Related party transactions*

In the normal course of business the Company and the Group enters into transactions with its related parties. These transactions, except for the Company's transactions with its subsidiaries, are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties.

The Company's transactions with its subsidiaries are priced predominantly at cost. Annual management fees are charged to the subsidiaries for an estimated amount which adjusts pricing of all transactions carried out with subsidiaries during the year to the market rates.

#### *(c) Revenue recognition*

Management judgment is needed to determine whether revenue for certain sales transactions should be recorded on a gross basis or on a net basis. Revenue is recognised on a gross basis where the role is that of principal in a transaction. The gross basis represents the sales price after discounts, with any related costs charged to expenses. Where the Company or the Group would act on a consignment basis in a transaction, revenue would be recognised on the net basis and inventory held on consignment is not recognised in the balance sheet.

#### *(d) Estimates concerning useful lives of tangible and intangible assets*

The useful lives of tangible and intangible assets are determined by management at the time the asset is acquired and reviewed on an annual basis for appropriateness. The lives are based on historical experiences with similar assets as well as anticipation of future events, which may impact their life. If useful lives of tangible and intangible assets determined by management are longer by one year, then depreciation and amortization expenses of the Company and the Group would be lower by LTL 588 thousand and LTL 545 thousand respectively for the year ended 31 December 2014 (LTL 397 thousand and LTL 350 thousand in 2013).

#### *(e) Impairment of property, plant and equipment*

Each shop is considered to represent a separate cash generating unit for impairment test. The Group and Company has tested its leasehold improvements and other fixed assets whether those have suffered any impairment, in accordance with the accounting policies stated in note 2.9. The Group and Company has used "value in use" calculations to test for impairment as information on fair value less costs to sell was not available. These calculations require the use of estimates (note 12).

### *(f) Inventory write-down to net realizable value*

In accordance with the accounting policies stated in note 2.12 the Group and Company recognise inventory at the lower of cost and net realizable value. The Group and Company evaluates whether the value of inventory recognised at cost is not lower that it's net realisibale value based on the historical data and actual results of inventory items sold below costs. If the recognised inventory write-down to net realizable value would be in 5 per cent higher/lower, the profit before income tax for the year 2014 of the Group and Company was in LTL 218 thousand and LTL 175 thousand lower/ higher respectively (for 2013 – LTL 173 thousand and LTL 136 thousand respectively).

## 2.3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company and the Group has adopted all of the new and revised Standards and Interpretations that are relevant to its operations and effective for accounting periods beginning on 1 January 2014.

### *(a) The following new standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2014:*

- IFRS 10, Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. This amendment had no significant impact on the Group's and Company's financial statements.

- IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014) 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. This amendment had no significant impact on the Group's and Company's financial statements.

- IAS 27 (revised 2011), Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014) The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. This amendment had no significant impact on the Group's and Company's financial statements.

- IAS 28 (revised 2011), Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014) The standard was revised following the issue of IFRS 11 and it now includes the requirements for joint ventures, as well as associates, to be equity accounted. This amendment had no significant impact on the Group's and Company's financial statements.

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014) The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. This amendment had no significant impact on the Group's and Company's financial statements.

### *(b) The following new standards, amendments to existing standards and interpretations have been issued and adopted by the European Union but are not yet effective and have not been early adopted by the Group and the Company:*

- IFRIC 21 – Levies (effective for annual periods beginning on or after 17 June 2014) The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group and Company is currently assessing the impact of the new standard on its financial statements.

- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (effective for annual periods beginning on or after 1 February 2015) The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group and Company is currently assessing the impact of the new standard on its financial statements.

- Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 February 2015) The improvements consist of changes to seven standards.

  - IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
  - IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.
  - 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 basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
  - IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
  - IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

  The Group and Company is currently assessing the impact of the amendments on its financial statements.

- Annual Improvements to IFRSs 2013 (effective for annual periods beginning on or after 1 January 2015) The improvements consist of changes to four standards.
  - The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
  - IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
  - The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.
  - IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

  The Group and Company is currently assessing the impact of the amendments on its financial statements.

## 2.4 CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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 the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2.5 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as General Director and other 6 Directors who make strategic decisions.

## 2.6 FOREIGN CURRENCY TRANSLATION

### *(a) Functional and presentation currency*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Lithuanian Litas, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

### *(b) Transactions and balances*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlements of monetary items, and on the retranslation of monetary items, are included in the statement of comprehensive income for the period.

### *(c) Group companies*

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Lithuanian Litas using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

The applicable rates used for the principal currencies as of 31 December 2014 and 2013 were as follows:

| | **2014** | | | **2013** | |
|---|---|---|---|---|---|
| 1 EUR | = | 3.4528 LTL | 1 EUR | = | 3.4528 LTL |
| | | | 1 LVL | = | 4.9184 LTL |

## 2.7 INTANGIBLE ASSETS

Intangible assets expected to provide economic benefit to the Company and the Group in future periods are valued at acquisition cost less subsequent accumulated amortisation.

Amortisation is calculated on a straight-line basis to write off the cost of each asset over the estimated useful life as follows:

| | |
|---|---|
| Software | 3-5 years |
| Licences and rights acquired | 5-9 years |

Amortisation is accounted for as selling expense.

## 2.8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost, less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged so as to write-off the cost of fixed assets to their residual value over their estimated useful lives, using the straight-line method, on the following basis:

| | |
|---|---|
| Buildings | 15-50 years |
| Plant and equipment | 5-20 years |
| Leasehold improvements | 4-10 years |
| Other fixed assets | 3-6 years |

All depreciation of property, plant and equipment is recognised in the statement of comprehensive income and accounted for as selling expenses.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.9). Impairment of property, plant and equipment as well as reversals of impairment during the year are included into selling costs caption in the statement of comprehensive income.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income within operating profit.

The Group and the Company capitalise borrowing costs that relate to assets that take more than 12 months to get ready for use. Otherwise borrowing costs are recognised as expenses of the current reporting period. The policy is applied from 1 January 2009 prospectively.

## 2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each balance sheet date, the Company and the Group reviews the carrying amounts of its tangible and intangible fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company and Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

## 2.10 INVESTMENTS IN SUBSIDIARIES

In the separate Company's financial statements investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Dividends received are credited to the Company's statement of comprehensive income.

## 2.11 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered through a disposal rather than through continuing use. This condition is regarded as met only when the disposal is highly probable and the asset is available for immediate disposal sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying value of assets and fair value less costs to sell.

## 2.12 INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in selling.

## 2.13 FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are recognized on the Company's and Group's balance sheet when the Company or the Group becomes a party to the contractual provisions of the instrument.

The Group and the Company classifies all its financial assets into the category of loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's and the Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet. All "regular way" purchases and sales of financial assets are recognised using settlement date accounting.

### *(a) Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated 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 loss is recognised in the statement of comprehensive income within 'general and administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in the statement of comprehensive income.

### *(b) Available for sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other financial assets categories.

After initial recognition available-for-sale financial assets are measured at fair value based on available market prices or quotes of brokers. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. The result of revaluation of available-for-sale securities is recognised in revaluation reserve of financial assets, reported under equity.

Revaluation of available-for-sale debt securities is calculated as difference between market value and amortised cost calculated using the original effective interest rate. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of comprehensive income as gain (loss) from sale of available-for-sale securities. If there is objective evidence that the value of an investment has been impaired, the cumulative net loss that has been recognised directly in equity is charged to profit (loss) for the year. Interest earned while holding available-for-sale financial assets is reported as interest income.

The Group and the Company assess at each date of preparation of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Available for sale financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

### *(c) Cash and cash equivalents*

Cash and cash equivalents are carried at nominal value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities on the balance sheet.

### *(d) Bank and subsidiaries borrowings*

Interest-bearing bank and subsidiaries loans and overdrafts are initially measured at fair value. Bank and subsidiaries borrowings are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in the statement of comprehensive income.

Borrowings are classified as current liabilities unless the Company or the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### *(e) Trade and other payables*

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

## 2.14 SHARE CAPITAL

### *(a) Ordinary shares*

Ordinary shares are stated at their par value. Consideration received for the shares sold in excess over their par value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

## 2.15 RESERVE

### *(a) Translation reserve*

The translation reserve is used for translation differences arising on consolidation of financial statements of foreign subsidiaries. Exchange differences are classified as equity in the consolidated financial statements until disposal of the investment. Upon disposal of the corresponding assets, the cumulative revaluation of translation reserves is recognised as income or expenses in the same period when the gain or loss on disposal is recognised.

#### *(b) Other reserves*

Other reserves are established upon the decision of annual general meeting of shareholders on profit appropriation. These reserves can be used only for the purposes approved by annual general meeting of shareholders.

Legal reserve is included into other reserves. Legal reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5 per cent of net result are required until the reserve reaches 10 per cent of share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

## 2.16 INCOME TAX

### *(a) Current income tax*

The Group companies are taxed individually irrespective of the overall results of the Group. Since 1st January 2010 the Group companies in Lithuania may transfer the estimated tax losses (or part thereof) to another Group company in Lithuania, which has a right to reduce the taxable profit with the respective amount of the tax looses transferred for the same taxable period. The Group companies have not used this option in 2013 and 2014, as the companies in Lithuania has earned a taxable profit.

The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the respective country in which group entity operates.

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

The income tax rate applied for the Company and subsidiaries operating in Lithuania was 15 per cent in 2013 and in 2014. Income tax rate on reporting period taxable profits in Latvia is 15 per cent and in Estonia nil. However, in Estonia profit tax is payable in the year of distribution of earnings at a rate of 21 per cent in 2013 and 2014, and 20 per cent in 2015.

### *(b) Deferred income tax*

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

Deferred income tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group and the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group and the Company intends to settle its current tax assets and liabilities on a net basis.

## 2.17 LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### *(a) the Company or the Group as lessor*

Payments received under operating leases (net of any incentives given to the lessee) are credited to the statement of comprehensive income on a straight-line basis over the period of the lease (Note 12).

### *(b) the Company or the Group as lessee*

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The property, plant and equipment acquired under finance leases (when the ownership is not transferred to the Group at the end of the lease period) is depreciated over the shorter of the asset's useful life and the lease term.

If sale and leaseback transaction results in a finance lease, any excess or shortfall of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction was established at fair value, any profit or loss is recognised immediately, except that if loss is compensated for by future lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

## 2.18 EMPLOYEE BENEFITS

### *(a) Social security contributions*

The Company and the Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

### *(b) Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and the Group and the Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

### *(c) Bonus plans*

The Company and the Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2.19 PROVISIONS

Provisions for restructuring costs and legal claims are recognised when: the Company or the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

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.

## 2.20 REVENUE RECOGNITION AND RELATED EXPENSES

Revenues are recognized as income on an accrual basis when earned. Expenses are charged to operations as incurred.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received of receivable for goods and services provided net of value-added tax, rebates and discounts.

Revenue is recognized as follows:

### *(a) Sales of goods – retail*

Sales of goods are recognized when the Company or another Group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in operating expenses. Revenue received under consignment where the Group and the Company is a consignee is recognised on a net basis.

### *(b) Sales of services*

Revenue from services is recognised on performance of the services.

### *(c) Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### *(d) Dividend income*

Dividend income is recognised when the right to receive payment is established.

### *(e) Rental income*

Payments received under operating leases (net of any incentives given to the lessee) are credited to the statement of comprehensive income on a straight-line basis over the period of the lease.

## 2.21 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 2.22 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit attributed to the shareholders of the Company and the Group from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Group and the Company and held as treasury shares, if any.

## 2.23 RELATED PARTIES

A related party is a person or entity that is related to the entity that is preparing its financial statements:

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled or jointly controlled by a person identified in (a).
   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

# 3. FINANCIAL RISK MANAGEMENT

### *(a) Financial risk factors*

The risk management function within the Group and the Company is carried out in respect of financial risks (credit, market (which consist of currency, interest rate and price) and liquidity), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The financial risks relate to the following financial instruments: available for sale financial assets, trade receivables, cash and cash equivalents, trade and other payables and borrowings. The accounting policy with respect to these financial instruments is described in previous section

<u>Credit risk</u>

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, available for sale financial assets as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with high credit ratings are accepted. Sales to wholesale customers are rare and immaterial, therefore risk control only assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to retail customers are settled in cash or using major credit cards.

Company's credit risk arising from trade receivables from subsidiaries and loans to subsidiaries is managed by controlling financial performance of subsidiaries on a monthly basis. All the subsidiaries have been profitable during the financial year (except, SIA Apranga SLV), therefore, in the management's opinion, the credit risk is not related to the aforementioned amounts. SIA Apranga SLV due to the positive cash flow has repaid the loan during the reporting period, so this subsidiary as well is avoiding the credit risk.

Available for sale financial assets is invested only to Lithuanian government bonds.

The Company and Group have no significant concentration of credit risk.

Liquidity risk

Liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group and the Company treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's and the Company's liquidity reserve (comprises undrawn borrowing facility (Note 24) and cash and cash equivalents (Note 21) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the Group in accordance with practice set by the group. In addition, the Group's and the Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these; and maintaining debt financing plans.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Trade and other payables due within 12 months equal their carrying balances as the impact of discounting is not significant.

| **GROUP**<br>**As at 31 December 2014** | **Less than 1 month** | **Between 1 and 3 months** | **Between 3 and 12 months** | **Between 1 and 2 years** | **Total** |
|---|---|---|---|---|---|
| Borrowings | 2 | 4 | 25 412 | - | 25 418 |
| Trade and other payables | 24 241 | 1 525 | 347 | - | 26 113 |
| **Total** | **24 243** | **1 529** | **25 759** | **-** | **51 531** |
| **As at 31 December 2013** | | | | | |
| Borrowings | - | - | 5 058 | - | 5 058 |
| Trade and other payables | 21 510 | 4 399 | 114 | - | 26 023 |
| **Total** | **21 510** | **4 399** | **5 172** | **-** | **31 081** |

| **COMPANY**<br>**As at 31 December 2014** | **Less than 1 month** | **Between 1 and 3 months** | **Between 3 and 12 months** | **Between 1 and 2 years** | **Total** |
|---|---|---|---|---|---|
| Borrowings | 6 | 13 | 41 828 | - | 41 847 |
| Trade and other payables | 8 400 | 1 478 | 149 | - | 10 027 |
| **Total** | **8 406** | **1 491** | **41 977** | **-** | **51 874** |
| **As at 31 December 2013** | | | | | |
| Borrowings | 5 | 11 | 23 737 | - | 23 753 |
| Trade and other payables | 6 806 | 3 938 | 63 | - | 10 807 |
| **Total** | **6 811** | **3 949** | **23 800** | **-** | **34 560** |

Market risk

*Cash flow and fair value interest rate risk*

As the Group and the Company most significant interest-bearing assets are available for sale financial assets, however, its income and operating cash flows are substantially independent of changes in market interest rates. The Company has loans to subsidiaries with floating interest rates, but the cash flow risk is mitigated by applying the same variable element of interest rate on those loans as the banks are charging the Company.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk, but this is not included in sensitivity analysis as the change in interest rates has no impact on profit or equity of the Group.

The Company's and Group's borrowings consist of loans with floating interest rate, which are related to VILIBOR and EONIA. The Company and the Group did not use any derivative financial instruments in order to control the risk of interest rate changes.

Trade and other receivables and payables are interest-free and have settlement dates within one year.

The Group's and the Company's cash flow and fair value interest rate risk is periodically monitored by the Group's management. It analyses its interest rate exposure on a dynamic basis taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the Group and the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for receivables and liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post tax profit of a 1per cent shift in interest rates would be a maximum increase or decrease of LTL 264 thousand (2013: LTL 39 thousand) for the Group and the maximum increase or decrease of LTL 196 thousand (2013: LTL 147 thousand) would be for the Company.

*Foreign exchange risk*

The Company and the Group has a policy to synchronize the cash flows from expected sales in the future with the expected purchases and other expenses in each foreign currency. Substantially all the Group's payables and receivables are short-term and in addition revenues and expenses in foreign currencies are insignificant (less than 10%) as compared to those in Litas and Euro (from February 2002 the exchange rate of Litas is pegged to the Euro at a rate of Litas 3.4528 = Euro 1). At the moment the Company and the Group doesn't use any derivative financial instruments in order to control foreign currencies exchange risk.

The Group operates in Lithuania, Latvia and Estonia, and during the reporting period used Litas (in Lithuania) and Euro (in Latvia and Estonia) currencies. Since Litas is pegged to Euro, while Estonia and Latvia introduced the Euro (respectively, since 1st January 2011 and since 1st January 2014), so there is no exchange rate fluctuations.

*Price risk*

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

### *(b) Capital risk management*

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

Consistent with others in the industry, the Group and Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public limited liability company must be not less than LTL 150 thousand and of a private limited liability company must be not less than LTL 10 thousand. In addition, for all entities the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2013 and 31 December 2014, the Company and all its Lithuanian subsidiaries complied with these requirements.

Pursuant to the Latvian Commercial Law the authorised share capital of a private limited liability company must be not less than EUR 2.8 thousand. In addition, the losses of the company should not exceed 50 per cent of the company's share capital. As at 31 December 2013 and 31 December 2014, all of the Company's Latvian subsidiaries complied with these requirements.

Pursuant to the Estonian Commercial Code the authorised share capital of a private limited liability company must be not less than EUR 2.5 thousand. In addition, the shareholders' equity should not be lower than 50 per cent of the company's share capital. As at 31 December 2013 and 31 December 2014, all of the Company's Estonian subsidiaries complied with these requirements.

In addition, the Group and Company has to comply with the financial covenants imposed in the agreement with SEB Bank. The Group and Company was in compliance with the covenants as at 31 December 2013 and 2014.

### *(c) Fair value estimation*

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis. Fair value measurement is determined in following 3 levels:

Level 1. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair values of available for sale financial assets are estimated with reference to average of bid and ask quoted market prices.

Level 2. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The Group and Company does not have financial assets or liabilities assigned to this level.

Level 3. Fair value determined by such valuation methods which use one or more of the significant inputs is not based on observable market data. Fair value of all receivables and payables as well as borrowings are assigned to this level.

Where, in the opinion of the management, the fair value of financial assets and liabilities differs materially from their book value, such fair values are separately disclosed in the notes to the financial statements.

## 4. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the General Director and other 6 Directors (responsible for managing, sales and marketing, human resources, purchases, development and finance) that are used to make strategic decisions.

The Directors consider the business from both a geographic and product perspective to certain extent. From product perspective Directors review only sales volume and gross margin by brand name. Gross margins of different brands are not significantly different, therefore can be aggregated into one reportable segment. Geographically, Directors separately consider operations in Lithuania, Latvia and Estonia depending on where the stores are located. Different legislation, consumer habits and economic situation substantially affect the average sales and expenses in each country, therefore Directors believe that each country represents a separate reportable segment.

All financial information, including the measure of profit and total assets, is analysed on a country basis.

The segment information provided to the Directors for the reportable segments for the year ended 31 December is as follows:

| **31 December 2014** | **Lithuania** | **Latvia** | **Estonia** | **Total** | **Inter-company elimina-tions** | **Total in consolidated financial statements** |
|---|---|---|---|---|---|---|
| Total segment revenue | 351 895 | 134 478 | 71 461 | 557 834 | - | |
| Inter-segment revenue | (45 761) | (4 577) | (2 419) | (52 757) | - | |
| **Revenue from external customers** | **306 134** | **129 901** | **69 042** | **505 077** | **-** | **505 077** |
| | | | | | | |
| **Gross margin** | **45,7%** | **48,7%** | **48,2%** | **46,8%** | | **46,8%** |
| | | | | | | |
| **Other income and expenses:** | | | | | | |
| Rent and utilities | 36 539 | 15 565 | 7 781 | 59 885 | | 59 885 |
| Renumeration and social security contributions | 47 553 | 15 714 | 8 046 | 71 313 | | 71 313 |
| Depreciation and amortisation | 11 433 | 5 459 | 2 323 | 19 215 | | 19 215 |
| PPE impairment charges | ( 34) | | ( 15) | ( 49) | | ( 49) |
| Other income and expenses | 16 761 | 15 532 | 8 372 | 40 665 | | 40 665 |
| | | | | | | |
| Finance income | 752 | 11 | 11 | 774 | ( 154) | 620 |
| Finance costs | ( 358) | ( 31) | ( 39) | ( 428) | 154 | ( 274) |
| | | | | | | |
| Income tax expense | 4 261 | 1 662 | 1 128 | 7 051 | | 7 051 |
| | | | | | | |
| **Profit (loss) for the year** | **23 852** | **9 268** | **5 618** | **38 738** | **-** | **38 738** |
| | | | | | | |
| Total assets | 205 818 | 49 843 | 28 952 | 284 613 | (50 451) | 234 162 |
| Additions to non-current assets (other than financial instruments and prepayments for leases) | 18 439 | 8 485 | 10 355 | 37 279 | (5 083) | 32 196 |

| **31 December 2013** | **Lithuania** | **Latvia** | **Estonia** | **Total** | **Inter-company elimina-tions** | **Total in consolidated financial statements** |
|---|---|---|---|---|---|---|
| Total segment revenue | 327 230 | 121 078 | 59 816 | 508 124 | - | |
| Inter-segment revenue | (35 869) | (4 147) | (1 435) | (41 451) | - | |
| **Revenue from external customers** | **291 361** | **116 931** | **58 381** | **466 673** | **-** | **466 673** |
| **Gross margin** | **46,4%** | **47,9%** | **47,5%** | **46,9%** | | **46,9%** |
| **Other income and expenses:** | | | | | | |
| Rent and utilities | 34 088 | 13 285 | 6 076 | 53 449 | | 53 449 |
| Renumeration and social security contributions | 43 584 | 13 182 | 5 614 | 62 380 | | 62 380 |
| Depreciation and amortisation | 10 525 | 5 996 | 2 099 | 18 620 | | 18 620 |
| PPE impairment charges | 66 | 138 | 98 | 302 | | 302 |
| Other income and expenses | 18 866 | 13 156 | 7 407 | 39 429 | | 39 429 |
| Finance income | 783 | 14 | 16 | 813 | ( 131) | 682 |
| Finance costs | ( 231) | ( 15) | ( 12) | ( 258) | 131 | ( 127) |
| Income tax expense | 4 332 | 1 606 | 1 280 | 7 218 | | 7 218 |
| **Profit for the year** | **24 339** | **8 605** | **5 184** | **38 128** | **-** | **38 128** |
| Total assets | 182 668 | 44 098 | 21 413 | 248 179 | (44 390) | 203 789 |
| Additions to non-current assets (other than financial instruments and prepayments for leases) | 14 485 | 5 805 | 3 273 | 23 563 | ( 787) | 22 776 |

In 2014 and in previous years, the Group was profitable in all three Baltic countries. Gross profitability of the Group was around 47% in 2014 and remained at the same level as in 2013. In 2014, gross margin in Lithuania decreased slightly, and respectively decreased the operating profitability. In Latvia and Estonia gross margin increased during the reporting period (which was mostly due to new stores openings during non-sales period). However, due to the relatively high grew of operating expenses in these countries operating profitability remained at the level of 2013. Operating profitability in 2014 in all countries amounted to 8-10%.

The total non-current assets other than financial instruments and deferred tax assets located in Lithuania is LTL 65 012 thousand (2013: LTL 60 529 thousand), and the total of these non-current assets located in other countries is LTL 31 556 thousand (2013: LTL 23 135 thousand).

## 5. EXPENSES BY NATURE

For the year ended 31 December cost of sales consisted of the following:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Cost of goods sold | 267 705 | 247 040 | 141 019 | 122 314 |
| Write-down of inventories to net realisable value | 4 362 | 3 462 | 3 492 | 2 717 |
| Reversal of prior year write-down of inventories to net realisable value | (3 462) | (2 800) | (2 717) | (2 103) |
| **Total cost of sales** | **268 605** | **247 702** | **141 794** | **122 928** |

A positive impact on inventory write-down to net realizable value was influenced by the sales of goods, which value was earlier wrote-down.

For the year ended 31 December selling costs consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Rent and utilities | 59 885 | 53 449 | 23 321 | 21 218 |
| Remuneration | 44 762 | 38 306 | 16 983 | 14 971 |
| Social security contributions | 12 694 | 10 955 | 4 923 | 4 367 |
| Depreciation and amortization (Note 12, 13) | 19 215 | 18 620 | 8 942 | 8 130 |
| Impairment charge (Note 12) | ( 49) | 302 | ( 34) | 47 |
| Advertising and marketing | 6 438 | 5 668 | 2 982 | 2 773 |
| Franchise expenses | 10 333 | 10 444 | 413 | 356 |
| Bank commissions | 4 454 | 4 414 | 1 629 | 1 552 |
| Labelling, packing and repairing | 2 624 | 2 567 | 1 189 | 1 162 |
| Logistics and distribution | 812 | 664 | 311 | 306 |
| Business trips | 2 090 | 1 721 | 1 376 | 1 182 |
| **Total selling costs** | **163 258** | **147 110** | **62 035** | **56 064** |

For the year ended 31 December general and administrative expenses consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Remuneration | 10 523 | 9 972 | 10 405 | 9 853 |
| Social security contributions | 3 334 | 3 147 | 3 295 | 3 107 |
| IT and communications | 2 073 | 1 713 | 1 087 | 907 |
| Repair and maintenance | 5 978 | 5 715 | 2 868 | 2 493 |
| Taxes (excluding income tax) | 530 | 463 | 413 | 389 |
| Consulting and audit expense | 1 503 | 1 871 | 1 253 | 1 591 |
| Other expenses | 5 341 | 5 441 | 2 890 | 3 245 |
| **Total general and administrative expenses** | **29 282** | **28 322** | **22 211** | **21 585** |

## 6. OTHER INCOME

For the year ended 31 December other income consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Rent income | 479 | 464 | 505 | 491 |
| Management fees | - | - | 11 771 | 9 463 |
| Gain from disposal of fixed assets, net | 75 | 8 | 45 | 8 |
| Interest income | 620 | 682 | 726 | 736 |
| Dividends | - | - | 24 180 | 27 532 |
| Other income | 1 040 | 809 | 865 | 745 |
| **Total other income** | **2 214** | **1 963** | **38 092** | **38 975** |

## 7. FINANCE COSTS

For the year ended 31 December finance costs consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Interest on bank borrowings | 274 | 127 | 274 | 127 |
| Interest on borrowings from subsidiaries | - | - | 47 | 71 |
| **Total finance costs** | **274** | **127** | **321** | **198** |

## 8. INCOME TAX EXPENSE

Domestic income tax is calculated at 15 per cent of the estimated profit for the year.

The total income tax charge can be reconciled to the accounting profit before tax as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Profit (loss) before tax | 45 789 | 45 346 | 36 792 | 39 658 |
| Tax at the domestic income tax rate | 6 868 | 6 802 | 5 519 | 5 949 |
| Tax effect of income not subject to tax | ( 5) | ( 38) | (3 632) | (4 169) |
| Tax effect of expenses that are not deductible in determining taxable profit | 70 | 90 | 39 | 79 |
| Unrecognised deferred tax asset from accrued losses | ( 216) | - | - | - |
| Effect of different tax rates of foreign subsidiaries | 334 | 364 | - | - |
| **Tax expense** | **7 051** | **7 218** | **1 926** | **1 859** |
| Effective income tax rate | 15,4% | 15,9% | 5,2% | 4,7% |

For the year ended 31 December income tax expense consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Current income tax expense | 6 920 | 7 393 | 1 749 | 2 020 |
| Deferred tax | 131 | ( 175) | 177 | ( 161) |
| **Total income tax expense** | **7 051** | **7 218** | **1 926** | **1 859** |

## 9. DEFERRED INCOME TAX

The movement in deferred income tax account was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| At beginning of year | (3 364) | (3 540) | (1 044) | (1 205) |
| Income statement (charge) credit | ( 131) | 176 | ( 177) | 161 |
| At end of year | **(3 495)** | **(3 364)** | **(1 221)** | **(1 044)** |

In 2013 and 2014 deferred income tax asset and liability related to the entities operating in Lithuania and Latvia were calculated at 15 per cent rate. Deferred income tax asset and liability related to the entities operating in Estonia were calculated at 21 per cent rate as at 31 December 2013, and 20 per cent rate as at 31 December 2014.

Deferred tax assets and liabilities recognised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Deferred tax assets**: | | | | |
| Inventory write down | 588 | 519 | 524 | 408 |
| Accruals | 520 | 403 | 353 | 309 |
| Taxable losses | 7 | - | - | - |
| **Total deferred tax assets** | **1 115** | **922** | **877** | **717** |
| **Deferred tax liability:** | | | | |
| Undistributed profits of subsidiaries | (1 505) | (1 581) | - | - |
| Depreciation of property, plant and equipment | (3 105) | (2 705) | (2 097) | (1 761) |
| **Total deferred tax liabilities** | **(4 610)** | **(4 286)** | **(2 097)** | **(1 761)** |
| **Total deferred tax (liabilities) assets, net** | **(3 495)** | **(3 364)** | **(1 220)** | **(1 044)** |

Deferred income tax assets are recognised only to the extent that realization of the related tax benefit is probable in the foreseeable future.

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Deferred tax assets:** | | | | |
| Deferred tax asset to be recovered after more than 12 months | 127 | 75 | 127 | 75 |
| Deferred tax asset to be recovered within 12 months | 988 | 847 | 750 | 642 |
| | **1 115** | **922** | **877** | **717** |
| **Deferred tax liabilities:** | | | | |
| Deferred tax liability to be recovered after more than 12 months | (2 645) | (2 709) | (1 752) | (1 576) |
| Deferred tax liability to be recovered within 12 months | (1 965) | (1 577) | ( 345) | ( 185) |
| | **(4 610)** | **(4 286)** | **(2 097)** | **(1 761)** |
| **Deferred tax (liabilities) assets, net** | **(3 495)** | **(3 364)** | **(1 220)** | **(1 044)** |

## 10. DIVIDENDS PER SHARE

| | **2014** | **2013** |
|---|---|---|
| Approved dividends | 27 646 | 30 411 |
| Weighted average number of ordinary shares in thousand (Note 22) | 55 292 | 55 292 |
| **Approved dividends per share, LTL** | **0.50** | **0.55** |

In 2014 dividends of LTL 0.50 per share was paid to the shareholders (LTL 0.55 per share in 2013).

In respect of the current year, the Board of Directors propose a dividend of EUR 0.13 (LTL 0.45) per share to be paid to the shareholders (Note 23). This dividend is subject to approval by the shareholders at the Annual Shareholder's Meeting and has not been included as a liability in these financial statements.

## 11. EARNINGS PER SHARE

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Profit (loss) for the year | 38 738 | 38 128 | 34 866 | 37 799 |
| Weighted average number of ordinary shares in thousand (Note 22) | 55 292 | 55 292 | 55 292 | 55 292 |
| **Basic and diluted earnings (losses) per share, LTL** | **0.70** | **0.69** | **0.63** | **0.68** |

Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share are the same as basic earnings per share.

## 12. PROPERTY, PLANT AND EQUIPMENT

At 31 December property, plant and equipment consisted of the following:

| **GROUP** | **Buildings** | **Plant and equipment** | **Leasehold improve-ments** | **Other fixed assets** | **Construc-tion in progress** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 31 December 2012** | **39 651** | **1 580** | **45 468** | **106 322** | **609** | **193 630** |
| Additions | 320 | 31 | 858 | 9 407 | 11 583 | 22 199 |
| Exchange differences | - | ( 1) | ( 87) | ( 303) | - | ( 391) |
| Disposals and write-offs | - | ( 6) | (2 746) | (6 453) | - | (9 205) |
| Transfers | - | - | 7 159 | 4 858 | (12 017) | - |
| **At 31 December 2013** | **39 971** | **1 604** | **50 652** | **113 831** | **175** | **206 233** |
| Additions | - | 39 | 1 005 | 8 855 | 26 224 | 36 123 |
| Disposals and write-offs | ( 4) | - | (5 120) | (9 136) | (5 018) | (19 278) |
| Transfers | 498 | - | 8 709 | 11 906 | (21 113) | - |
| **At 31 December 2014** | **40 465** | **1 643** | **55 246** | **125 456** | **268** | **223 078** |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| **At 31 December 2012** | **9 898** | **1 378** | **28 565** | **74 118** | **-** | **113 959** |
| Charge for period | 1 027 | 65 | 5 752 | 11 589 | - | 18 433 |
| Disposals and write-offs | - | ( 6) | (1 778) | (6 155) | - | (7 939) |
| Exchange differences | - | ( 1) | ( 53) | ( 182) | - | ( 236) |
| **At 31 December 2013** | **10 925** | **1 436** | **32 486** | **79 370** | **-** | **124 217** |
| Charge for period | 1 018 | 62 | 6 124 | 11 581 | - | 18 785 |
| Disposals and write-offs | ( 4) | - | (5 111) | (8 912) | - | (14 027) |
| **At 31 December 2014** | **11 939** | **1 498** | **33 499** | **82 039** | **-** | **128 975** |
| | | | | | | |
| **Impairment charge** | | | | | | |
| **At 31 December 2012** | **-** | **-** | **382** | **933** | **-** | **1 315** |
| Charge for period | | | 37 | 273 | | 310 |
| Write-offs | | | ( 382) | ( 79) | | ( 461) |
| **At 31 December 2013** | **-** | **-** | **37** | **1 127** | **-** | **1 164** |
| | | | | | | |
| Charge for period (reversal) | | | - | ( 49) | | ( 49) |
| Write-offs | | | ( 37) | ( 86) | | ( 123) |
| **At 31 December 2014** | **-** | **-** | **-** | **992** | **-** | **992** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **At 31 December 2012** | **29 753** | **202** | **16 521** | **31 271** | **609** | **78 356** |
| **At 31 December 2013** | **29 046** | **168** | **18 129** | **33 334** | **175** | **80 852** |
| **At 31 December 2014** | **28 526** | **145** | **21 747** | **42 425** | **268** | **93 111** |

| COMPANY | Buildings | Plant and equipment | Leasehold improve-ments | Other fixed assets | Construc-tion in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 31 December 2012** | **39 651** | **1 580** | **21 157** | **41 353** | **76** | **103 817** |
| Additions | 320 | 31 | 54 | 5 236 | 3 540 | 9 181 |
| Disposals and write-offs | - | ( 6) | (2 144) | (5 298) | - | (7 448) |
| Transfers | - | - | 3 311 | 160 | (3 471) | - |
| **At 31 December 2013** | **39 971** | **1 605** | **22 378** | **41 451** | **145** | **105 550** |
| Additions | - | 39 | 269 | 5 978 | 7 754 | 14 040 |
| Disposals and write-offs | ( 4) | - | (2 617) | (3 444) | (1 171) | (7 236) |
| Transfers | 498 | - | 4 429 | 1 647 | (6 574) | - |
| **At 31 December 2014** | **40 465** | **1 644** | **24 459** | **45 632** | **154** | **112 354** |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| **At 31 December 2012** | **9 898** | **1 378** | **13 197** | **27 796** | **-** | **52 269** |
| Charge for period | 1 027 | 65 | 2 661 | 4 257 | - | 8 010 |
| Disposals and write-offs | - | ( 6) | (1 652) | (5 214) | - | (6 872) |
| **At 31 December 2013** | **10 925** | **1 437** | **14 206** | **26 839** | **-** | **53 407** |
| Charge for period | 1 018 | 62 | 3 021 | 4 689 | - | 8 790 |
| Disposals and write-offs | ( 4) | - | (2 594) | (3 405) | - | (6 003) |
| **At 31 December 2014** | **11 939** | **1 499** | **14 633** | **28 123** | **-** | **56 194** |
| | | | | | | |
| **Impairment charge** | | | | | | |
| **At 31 December 2012** | **-** | **-** | **382** | **790** | **-** | **1 172** |
| Charge for period | | | 19 | 37 | | 56 |
| Write-offs | | | ( 382) | ( 66) | | ( 448) |
| **At 31 December 2013** | **-** | **-** | **19** | **761** | **-** | **780** |
| | | | | | | |
| Charge for period (reversal) | | | | ( 34) | | ( 34) |
| Write-offs | | | ( 19) | ( 3) | | ( 22) |
| **At 31 December 2014** | **-** | **-** | **-** | **724** | **-** | **724** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **At 31 December 2012** | **29 753** | **202** | **7 578** | **12 767** | **76** | **50 376** |
| **At 31 December 2013** | **29 046** | **168** | **8 153** | **13 851** | **145** | **51 363** |
| **At 31 December 2014** | **28 526** | **145** | **9 826** | **16 785** | **154** | **55 436** |

At 31 December 2014 the Group's and the Company's buildings with the carrying amount of LTL 22 987 thousand (2013: LTL 23 600 thousand) have been pledged as security for outstanding loans from financial institutions (Note 24).

The Company's buildings with the total carrying amount of LTL 1 091 thousand as of 31 December 2014 (2013: LTL 1 158 thousand) was leased to third parties.

At 31 December the acquisition cost of the fully depreciated property, plant and equipment still in use was as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Plant and equipment | 1 837 | 1 184 | 1 837 | 1 184 |
| Leasehold improvements | 12 172 | 11 396 | 2 122 | - |
| Other fixed assets | 44 657 | 33 371 | 11 665 | 10 548 |
| **Total** | **58 666** | **45 951** | **15 624** | **11 732** |

At 31 December 2014 the Group did not have the property, plant and equipment acquired under finance lease contracts (did not have at 31 December 2013).

The Group and the Company has tested its leasehold improvements and other fixed assets for impairment in accordance with the accounting policies stated in note 2.9.

Estimation of the value in use was based on the discounted pre-tax cash flows (DCF) of the latest available business plan. DCF was estimated over remaining useful life of leasehold improvements (vast majority of premises are leased). The weighted average cost of capital (further – WACC) of 10 per cent (2013: 10 per cent) was used for value in use estimation.

Based on the calculations performed the Management concluded that impairment charges of LTL 992 thousand for the Group (2013: LTL 1 164 thousand) and LTL 724 thousand for the Company (2013: LTL 780 thousand) should be recorded against the leasehold improvements and other fixed assets.

If the estimated pre-tax discount rate applied to the discounted cash flows for cash generating units had been 1% higher than management estimates (for example 11 per cent instead of 10 per cent), the Group and the Company would not have recognised higher impairment loss against leasehold improvements and other fixed assets nor in 2013, nor in 2014.

## 13. INTANGIBLE ASSETS

At 31 December intangible assets consisted of the following:

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | **Licenses and rights acquired** | **Software** | **Total** | **Licenses and rights acquired** | **Software** | **Total** |
| **Cost** | | | | | | |
| **At 31 December 2012** | **895** | **1 587** | **2 482** | **568** | **1 334** | **1 902** |
| Additions | 1 259 | 105 | **1 364** | 8 | 105 | **113** |
| Write-offs | - | ( 3) | **( 3)** | - | ( 2) | **( 2)** |
| **At 31 December 2013** | **2 154** | **1 689** | **3 843** | **576** | **1 437** | **2 013** |
| Additions | 56 | 1 100 | **1 156** | 56 | 1 098 | **1 154** |
| Write-offs | ( 259) | ( 125) | **( 384)** | ( 259) | ( 30) | **( 289)** |
| **At 31 December 2014** | **1 951** | **2 664** | **4 615** | **373** | **2 505** | **2 878** |
| | | | | | | |
| **Accumulated amortisation** | | | | | | |
| **At 31 December 2012** | **654** | **1 498** | **2 152** | **389** | **1 269** | **1 658** |
| Charge for period | 141 | 46 | **187** | 84 | 35 | **119** |
| Write-offs | - | ( 3) | **( 3)** | - | ( 2) | **( 2)** |
| **At 31 December 2013** | **795** | **1 541** | **2 336** | **473** | **1 302** | **1 775** |
| Charge for period | 305 | 125 | **430** | 35 | 117 | **152** |
| Write-offs | ( 259) | ( 125) | **( 384)** | ( 259) | ( 30) | **( 289)** |
| **At 31 December 2014** | **841** | **1 541** | **2 382** | **249** | **1 389** | **1 638** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **At 31 December 2012** | **241** | **89** | **330** | **179** | **65** | **244** |
| **At 31 December 2013** | **1 359** | **148** | **1 507** | **103** | **135** | **238** |
| **At 31 December 2014** | **1 110** | **1 123** | **2 233** | **124** | **1 116** | **1 240** |

At 31 December the acquisition cost of fully amortized intangible assets still in use was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Licenses | 500 | 482 | 170 | 309 |
| Software | 1 358 | 1 468 | 1 236 | 1 261 |
| **Total** | **1 858** | **1 950** | **1 406** | **1 570** |

## 14. INVESTMENTS IN SUBSIDIARIES

The Company's investments in subsidiaries at 31 December are as follows:

| Name | Country of incorporation | Ownership % | Cost 2014 | Cost 2013 |
|---|---|---|---|---|
| UAB Apranga LT | Lithuania | 100 | 2 500 | 2 500 |
| UAB Apranga BPB LT | Lithuania | 100 | 500 | 500 |
| UAB Apranga PLT | Lithuania | 100 | 300 | 300 |
| UAB Apranga SLT | Lithuania | 100 | 300 | 300 |
| UAB Apranga MLT | Lithuania | 100 | 300 | 300 |
| SIA Apranga | Latvia | 100 | 7 511 | 7 511 |
| SIA Apranga LV | Latvia | 100 | 529 | 529 |
| SIA Apranga BPB LV | Latvia | 100 | 297 | 297 |
| SIA Apranga PLV | Latvia | 100 | 297 | 297 |
| SIA Apranga SLV | Latvia | 100 | 292 | 292 |
| SIA Apranga MLV | Latvia | 100 | 297 | 297 |
| OU Apranga[1] | Estonia | 100 | 1 545 | 1 545 |
| OU Apranga Estonia | Estonia | 100 | 441 | 441 |
| OU Apranga BEE | Estonia | 100 | 330 | 330 |
| OU Apranga PB Trade | Estonia | 100 | 331 | 331 |
| OU Apranga ST Retail | Estonia | 100 | 331 | 331 |
| OU Apranga MDE | Estonia | 100 | 9 | - |
| **Total investments** | | | **16 110** | **16 101** |

[1] The Company directly owns 33.33% shares and indirectly through its subsidiary owns the rest 66.67% of shares.

The changes in investments are as follows:

| | 2014 | 2013 |
|---|---|---|
| **Beginning of the year** | 16 101 | 16 101 |
| Establishment of OU Apranga MDE | 9 | - |
| **At end of the year** | **16 110** | **16 101** |

## 15. INVENTORIES

| | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| Goods for resale | 110 059 | 89 504 | 61 014 | 48 779 |
| Write-down of goods for resale to net realisable value | (4 362) | (3 462) | (3 492) | (2 717) |
| Goods in transit | 740 | 1 327 | 740 | 1 228 |
| Materials and spare parts | 1 238 | 1 283 | 1 239 | 1 283 |
| **Total** | **107 675** | **88 652** | **59 501** | **48 573** |

During the year ended 31 December 2014 the Group and the Company recognised as cost of sales write-down of book value of the goods for resale to their net realizable value of LTL 4 362 thousand and LTL 3 492 thousand respectively (31 December 2013 - LTL 3 462 thousand and LTL 2 717 thousand respectively). The reversal of write-down of book value of the goods for resale to net realizable value of LTL 3 462 thousand and LTL 2 717 thousand made during the year ended 31 December 2013 was credited to cost of sales of the Group and the Company in 2013 (LTL 2 800 thousand and LTL 2 103 thousand in 2012).

At 31 December 2014 inventories of the Group and the Company have been pledged as security for outstanding loans from financial institutions (Note 24). The total carrying amount of Group's pledged inventories as at 31 December 2013 and 2014 was LTL 27 264 thousand, Company's - LTL 19 664 thousand.

## 16. NON-CURRENT ASSETS HELD FOR SALE

At 31 December 2014 and 2013 non-current assets held for sale consisted of the 91 per cent ownership in UAB Palangos Varuna. Purchase of shares in the entity was not considered to be a business combination as the entity did not constitute a business. In substance it was the purchase of the long term assets. There were no impairment charge on non-current assets held for sale in 2014 and 2013, as the cost of investments did not exceed their fair value as of 31 December 2014 and 2013.

## 17. PREPAYMENTS

At 31 December prepayments consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Prepayments | 5 619 | 4 211 | 3 746 | 2 961 |
| Less non-current portion of prepayments | (1 154) | (1 201) | ( 273) | ( 296) |
| **Current portion of prepayments** | **4 465** | **3 010** | **3 473** | **2 665** |

## 18. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| | Group | | Company | |
|---|---|---|---|---|
| | Category - Loans and receivables | | Category - Loans and receivables | |
| **Assets as per balance sheet:** | **2014** | **2013** | **2014** | **2013** |
| Trade and other receivables | 3 872 | 2 903 | 36 568 | 27 637 |
| Cash and cash equivalents | 7 541 | 8 275 | 2 324 | 1 293 |
| **Total** | **11 413** | **11 178** | **38 892** | **28 930** |
| | Category - Available for sale | | Category - Available for sale | |
| Available for sale financial assets | 12 993 | 16 271 | 12 993 | 16 271 |
| **Total** | **12 993** | **16 271** | **12 993** | **16 271** |
| **Total assets** | **24 406** | **27 449** | **51 885** | **45 201** |

In 2011-2014, the Company has acquired the Lithuanian Government issued the long-term bonds (redemption years various from 2017 to 2022) denominated in Litas and in Euros, which are recorded as Available for sale financial assets.

In July 2014 the Company for LTL 2.5 million sold and for the approximately same amount acquired the Lithuanian Government issued long-term bonds (redemption year - 2022) denominated in Litas, which are recorded as Available for sale financial assets.

In October 2014 the Company for LTL 3.1 million sold the Lithuanian Government issued long-term bonds denominated in Litas. Total investments in the Lithuanian Government issued the long-term bonds amounted to LTL 13.0 million on 31 December 2014.

| | Group | | Company | |
|---|---|---|---|---|
| | Category - Financial liabilities measured at amortised cost | | Category - Financial liabilities measured at amortised cost | |
| **Liabilities as per balance sheet:** | **2014** | **2013** | **2014** | **2013** |
| Borrowings | 25 108 | 4 994 | 41 487 | 23 624 |
| Trade and other payables | 26 113 | 26 023 | 10 027 | 10 807 |
| **Total** | **51 221** | **31 017** | **51 514** | **34 431** |

## 19. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Available for sale financial assets | 12 993 | 16 271 | 12 993 | 16 271 |
| Trade and other receivables with no history of counterparty defaults | 3 222 | 2 307 | 2 105 | 1 419 |
| Receivables from related parties (note 26) | 650 | 596 | 34 463 | 26 218 |
| Cash at bank that have high credit ratings (cash on hand is excluded) | 3 281 | 3 362 | 1 083 | 9 |
| **Total** | **20 146** | **22 536** | **50 644** | **43 917** |

## 20. TRADE AND OTHER RECEIVABLES

At 31 December trade and other receivables consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Trade receivables from subsidiaries | - | - | 25 465 | 19 671 |
| Loans to subsidiaries | - | - | 8 348 | 5 951 |
| Loans and other receivables from related parties | 650 | 596 | 650 | 596 |
| Trade receivables from unrelated parties | 409 | 387 | 223 | 192 |
| Other receivables | 2 813 | 1 920 | 1 882 | 1 227 |
| Less: allowance for impairment of receivables | - | - | - | - |
| **Total** | **3 872** | **2 903** | **36 568** | **27 637** |
| | | | | |
| Less non-current portion of other receivables | ( 70) | ( 104) | ( 70) | ( 104) |
| **Current portion** | **3 802** | **2 799** | **36 498** | **27 533** |

Trade receivables that are less than three months past due are not considered impaired. There were no receivables past due but not impaired as at 31 December 2014 and 2013.

As of 31 December 2013 and 31 December 2014, none of trade receivables were impaired and provided for by the Group. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group and the Company does not hold any collateral as security.

The carrying amounts of the Company's loans to subsidiaries are denominated in the following currencies:

| | **2014** | **2013** |
|---|---|---|
| LTL | 752 | 2 000 |
| EUR | 7 596 | 3 951 |
| **Total** | **8 348** | **5 951** |

The interest rate at 31 December 2014 is 1.7 per cent (2013: 1.8 per cent), maturity date – 31 December 2015 (2013: 31 December 2014).

In the opinion of management, the carrying amount of the receivables approximates their fair value.

## 21. CASH AND CASH EQUIVALENTS

At 31 December cash and cash equivalents consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Cash at bank | 3 281 | 3 362 | 1 083 | 9 |
| Cash on hand | 848 | 1 172 | 1 | 317 |
| Cash in transit | 3 412 | 3 741 | 1 240 | 967 |
| **Total** | **7 541** | **8 275** | **2 324** | **1 293** |

Cash in certain bank accounts and future cash inflows into these accounts were pledged to banks as security for credit facilities granted. At 31 December 2014, the cash balances of the Group and the Company in the pledged accounts amounted to LTL 1 083 thousand (2013: LTL 9 thousand) (Note 24).

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Cash and cash equivalents | 7 541 | 8 275 | 2 324 | 1 293 |
| Bank overdrafts (Note 24) | (2 108) | (4 994) | (2 108) | (4 994) |
| **Total** | **5 433** | **3 281** | **216** | **(3 701)** |

## 22. SHARE CAPITAL

At 31 December 2014 issued share capital of the Company consisted of 55 291 960 (2013: 55 291 960) ordinary shares at par value of LTL 1 each. All issued shares are fully paid.

Subsidiaries did not hold any shares of the Company as of 31 December 2014 and 2013. The Company did not hold its own shares as of 31 December 2014 and 2013.

## 23. PROFIT DISTRIBUTION

Under Lithuanian Law on Companies the Company has to allocate 1/20 of its net profit to the legal reserve until it reaches 1/10 of the Company's authorised capital (up to LTL 5 529 thousand as at 31 December 2014).

On 29 April 2014 the Company's shareholders' meeting decided to pay out LTL 27 646 thousand in dividends and LTL 750 thousand annual bonuses (On 30 April 2013 the Company's shareholders' meeting decided to pay out LTL 30 411 thousand in dividends, LTL 720 thousand annual bonuses and allocate LTL 917 thousand to legal reserve).

In respect of the current year, the Board of directors propose a dividend of LTL 24 819 thousand to be paid to the shareholders and also LTL 720 thousand annual bonuses. This dividend and annual bonuses are subject to approval by shareholders at the Annual Shareholder's Meeting.

## 24. BORROWINGS

At 31 December the carrying amounts of the borrowings consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Bank credit lines and loans | 23 000 | - | 23 000 | - |
| Bank overdrafts | 2 108 | 4 994 | 2 108 | 4 994 |
| Borrowings from subsidiaries | - | - | 16 379 | 18 630 |
| **Total** | **25 108** | **4 994** | **41 487** | **23 624** |

The bank credit lines are secured by cash in certain of bank accounts (Note 21), some of buildings (Note 12) and part of inventories (Note 15).

At 31 December the carrying amounts of the borrowings are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| LTL | 25 108 | 4 994 | 25 108 | 4 994 |
| EUR | - | - | 16 379 | 18 630 |
| **Total** | **25 108** | **4 994** | **41 487** | **23 624** |

The weighted average interest rates at the balance sheet date were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Bank overdraft | 1.3% | 1.4% | 1.3% | 1.4% |
| Borrowings from subsidiaries | - | - | 0.2% | 0.3% |

Exposure of the Group's and the Company's borrowings to interest rate changes and the contractual repricing dates fall into period of 6 month or less.

Interest rate of majority of the borrowings is based on market interest rate, therefore, in the opinion of the management, carrying amount of borrowings approximates to their fair value.

Group's and Company's borrowing facilities contracted but undrawn as at the date of the balance sheet were LTL 34 555 thousand (2013: LTL 44 800 thousand).

## 25. TRADE AND OTHER PAYABLES

At 31 December trade and other payables consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Payables to subsidiaries | - | - | 14 | 14 |
| Payables to other related parties | 127 | 127 | 123 | 123 |
| Trade payables | 16 916 | 16 627 | 5 536 | 5 814 |
| Employee benefits and related payables | 11 513 | 10 661 | 6 719 | 6 493 |
| Advances received | 334 | 378 | 137 | 184 |
| Taxes payable | 7 682 | 7 877 | 2 811 | 2 805 |
| Accrued expenses and other payables | 9 070 | 9 269 | 4 354 | 4 856 |
| **Total** | **45 642** | **44 939** | **19 694** | **20 289** |

## 26. RELATED PARTY TRANSACTIONS

The Company's and the Group's transactions with related parties and balances arising from these transactions as of 31 December were as follows:

| | Accounts payable | | Accounts receivable and loans granted | | Income received | | Purchases | |
|---|---|---|---|---|---|---|---|---|
| **Related parties** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| UAB Koncernas MG Baltic | 60 | 44 | - | - | - | - | 447 | 440 |
| UAB Minvista | - | - | - | - | 2 | 17 | - | - |
| UAB Mineraliniai vandenys | - | 16 | - | - | - | - | 55 | 46 |
| UAB Mediafon | 1 | - | - | - | - | - | 4 | - |
| UAB MG Baltic Investment | 50 | 50 | 1 | 1 | - | - | 592 | 592 |
| UAB MG Valda | 17 | 17 | - | - | - | - | 166 | 168 |
| UAB Palangos Varūna | - | - | 628 | 596 | - | - | - | - |
| LNK Group | - | - | 21 | 1 | 16 | 47 | - | 99 |
| **Total** | **128** | **127** | **650** | **598** | **18** | **64** | **1 264** | **1 345** |

Prevailing types of related party contracts are rent, management service fee, advertising, centralised services (telecommunications, utilities and etc.).

The Company's transactions with subsidiaries and balances arising from these transactions as of 31 December were as follows:

| | Borrowings and accounts payable | | Loans and accounts receivable | | Income received | | Purchases | |
|---|---|---|---|---|---|---|---|---|
| **Subsidiaries** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| UAB Apranga LT | 8 744 | 10 019 | 215 | 27 | 10 081 | 10 136 | 362 | 261 |
| UAB Apranga BPB LT | 110 | 715 | 67 | 7 | 1 128 | 2 020 | 97 | 117 |
| UAB Apranga PLT | - | - | 757 | 1 251 | 746 | 2 015 | 33 | 33 |
| UAB Apranga SLT | - | - | 92 | 768 | 595 | 1 433 | 88 | 74 |
| UAB Apranga MLT | 1 833 | 1 595 | 109 | 46 | 4 330 | 2 747 | 40 | 81 |
| SIA Apranga | - | - | 19 775 | 15 904 | 35 685 | 26 894 | 296 | 77 |
| SIA Apranga LV | 2 555 | 2 166 | 78 | - | 5 610 | 6 708 | 171 | 108 |
| SIA Apranga BPB LV | - | 1 | 62 | 24 | 525 | 807 | 3 | 29 |
| SIA Apranga PLV | 480 | 304 | 31 | 11 | 684 | 1 131 | 8 | 6 |
| SIA Apranga SLV | 16 | - | - | 77 | 52 | 44 | 12 | 2 |
| SIA Apranga MLV | 853 | 59 | 59 | 26 | 2 186 | 1 537 | 71 | 52 |
| OU Apranga | - | - | 9 820 | 7 456 | 12 156 | 8 992 | 84 | 48 |
| OU Apranga Estonia | - | 2 210 | 2 251 | 19 | 4 328 | 4 726 | 125 | 69 |
| OU Apranga BEE | 711 | 698 | 17 | 1 | 720 | 626 | 42 | 46 |
| OU Apranga PB Trade | 608 | 570 | 13 | 2 | 492 | 568 | 27 | 17 |
| OU Apranga ST Retail | 470 | 311 | 11 | - | 334 | 399 | 31 | 16 |
| OU Apranga MDE | - | - | 432 | - | 183 | - | - | - |
| **Total** | **16 380** | **18 648** | **33 789** | **25 619** | **79 835** | **70 783** | **1 490** | **1 036** |

Prevailing types of intra-group transactions are centralised supplies of goods for resale, management service fees, centralised purchasing of services (telecommunications, IT, utilities and etc.), financing, distribution of earnings. Dividend income in amount of LTL 24 180 thousand received from the subsidiaries in 2014 is presented in 'Income received' together with other income (2013: LTL 27 532 thousand).

The debts of Group companies are offset each month, and the remaining portion of the debt is paid no later than in 30 days. The Company's and the Group's and related parties debts are paid within 30 days.

### *Guarantees provided on behalf of related parties*

Guarantees provided on behalf of related parties are disclosed in Note 27.

### *Compensation of key management personnel*

The General Director and other Directors of the Company are considered to be the key management of the Group. There were 7 members of the key management as at 31 December 2014 (7 members of the key management as at 31 December 2013). 3 of them also belong to the Management Board, which consists of 6 members.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Short-term employee benefits | 4 758 | 4 645 | 4 640 | 4 526 |
| Social security | 1 499 | 1 459 | 1 460 | 1 419 |
| Average number of key managers | 7 | 7 | 7 | 7 |

On 29 April 2014 the Company's shareholders' meeting decided to pay out annual bonuses of LTL 390 thousand to the key management (LTL 360 thousand paid in 2013).

## 27. COMMITMENTS AND CONTINGENCIES

### *Legal proceedings*

As of 31 December 2014 and 2013 the Company and the Group were not involved in any legal process, which in the opinion of management, would have a material impact on the financial statements.

### *Guarantees*

As of 31 December 2014 guarantees issued by the credit institutions on behalf of the Company to secure the obligations of its subsidiaries to their suppliers amounted LTL 35 412 thousand (31 December 2013: LTL 34 891 thousand). The letters of credit and guarantees provided to suppliers by the credit institutions on behalf of the Group as of 31 December 2014 amounted to LTL 41 413 thousand (31 December 2013: LTL 41 281 thousand).

As of 31 December 2014 and 2013 the Company's had no guarantees to the credit institutions issued to secure the obligations of subsidiaries. As of 31 December 2014 the Company's guarantees issued to secure the obligations of its subsidiaries to their suppliers totalled LTL 2 626 thousand (31 December 2013: LTL 2 356 thousand).

### *Lease commitments*

The Company and the Group has entered into 71 and 155 rental agreements of stores respectively (2013: 65 and 141). The agreements' termination period differs from 1 to 6 months.

At 31 December the future aggregate minimum lease payments under operating leases in connection with the rent of premises where the Group and the Company is a lessee were as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Lease payable within:** | | | | |
| One year | 71 013 | 62 928 | 26 045 | 23 546 |
| From second to fifth year | 206 234 | 192 834 | 79 244 | 74 138 |
| Thereafter | 56 583 | 53 898 | 28 388 | 23 537 |
| **Total** | **333 830** | **309 660** | **133 677** | **121 221** |

Minimum lease payments may be dependent on the turnover of goods in leased premises, or indexed at appropriate inflation rate.

### *Options granted*

Options for assets

The Group issued irrevocable call options to INDITEX Group granting the right to purchase assets (leasehold improvements and PPE located in the premises of shops and inventory) of subsidiaries UAB Apranga LT, UAB Apranga BPB LT, UAB Apranga PLT, UAB Apranga SLT, UAB Apranga MLT, SIA Apranga LV, SIA Apranga BPB LV, SIA Apranga PLV, SIA Apranga SLV, SIA Apranga MLV, OU Apranga Estonia, OU Apranga BEE, OU Apranga PB Trade, OU Apranga ST Retail and OU Apranga MDE operating brands of INDITEX Group (ZARA, BERSHKA, PULL AND BEAR, STRADIVARIUS and MASSIMO DUTTI). The options are exercisable in 2016 and are firmly and irrevocably granted so that the Group waived the right that it might have to revoke them.

The Group issued irrevocable call options to company PROMOD SAS granting the right to purchase assets (PPE located in the premises of shops and inventory) of Company and subsidiaries SIA Apranga and OU Apranga operating the brand of PROMOD. The options are exercisable in 2015 and are firmly and irrevocably granted so that the Group waived the right that it might have to revoke them.

The Group also issued irrevocable call options to ALDO Group granting the right to purchase assets (PPE located in the premises of shops and inventory) of Company and subsidiaries SIA Apranga and OU Apranga operating the brand of ALDO. The options are exercisable in 2017 and are firmly and irrevocably granted so that the Group waived the right that it might have to revoke them.

Options for lease rights

Subsidiaries UAB Apranga LT, UAB Apranga BPB LT, UAB Apranga PLT, UAB Apranga SLT, UAB Apranga MLT, SIA Apranga LV, SIA Apranga BPB LV, SIA Apranga PLV, SIA Apranga SLV, SIA Apranga MLV, OU Apranga Estonia, OU Apranga BEE, OU Apranga PB Trade, OU Apranga ST Retail and OU Apranga MDE operating brands of INDITEX Group (ZARA, BERSHKA, PULL AND BEAR, STRADIVARIUS and MASSIMO DUTTI) granted irrevocable options exercisable in 2016 by virtue of which INDITEX Group might acquire the lease rights and might become lessee in all or part of the lease agreements for the premises where ZARA, BERSHKA, PULL AND BEAR, STRADIVARIUS and MASSIMO DUTTI stores are located.

Company and its subsidiaries SIA Apranga and OU Apranga operating brand PROMOD granted irrevocable options exercisable in 2015 by virtue of which PROMOD SAS might acquire the lease rights and might become lessee in the lease agreements for the premises where PROMOD stores are located.

Company and its subsidiaries SIA Apranga and OU Apranga operating brand ALDO granted irrevocable options exercisable in 2017 by virtue of which ALDO Group might acquire the lease rights and might become lessee in the lease agreements for the premises where ALDO stores are located.

At 31 December, the future aggregate minimum lease payments under operating leases in connection with the rent of premises where the Group and the Company issued options to purchase lease rights were as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Lease payable within:** | | | | |
| One year | 34 345 | 31 293 | 2 253 | 2 016 |
| From second to fifth year | 90 307 | 85 681 | 6 451 | 5 715 |
| Thereafter | 17 551 | 20 557 | 1 806 | 2 632 |
| **Total** | **142 203** | **137 531** | **10 510** | **10 363** |

It is not anticipated that any material liabilities will arise from the contingent liabilities.

## 28. EVENTS AFTER THER REPORTING PERIOD

There were no events in the Group and in the Company after the reporting period that could significantly influence the decisions of the users of the financial statements.

* * * * * *

**APB APRANGA**

Consolidated Annual Report

for the year ended 31 December 2014

## 1. GENERAL INFORMATION

Consolidated annual report is prepared for the year ended 31 December 2014.

| | |
|---|---|
| Name of the Issuer: | trade company "Apranga" |
| Legal form: | public limited liability company |
| Date and place of registration: | 1993 03 01 Board of Vilnius City |
| Code of Enterprise: | 121933274 |
| Registered office: | Kirtimu str. 51, Vilnius, LT-02244, Lithuania |
| Telephone number: | +370 5 2390808 |
| Fax number: | +370 5 2390800 |
| E-mail address: | info@apranga.lt |
| Internet address: | www.apranga.lt |

At 31 December 2014 Apranga Group (hereinafter the Group) consisted of the parent company APB Apranga (hereinafter the Company) and its 100 per cent owned subsidiaries listed below. The principal activity of the Company and its subsidiaries is retail trade of apparel.

| Title | Legal form | Date and place of registration | Enterprise code | Register-ed office | Telephone, fax, e-mail, www |
|---|---|---|---|---|---|
| UAB Apranga LT | Private limited liability company | 27 04 2004 State enterprise Centre of Registers of the Republic of Lithuania | 300021271 | Kirtimų 51, Vilnius, Lithuania | Tel. 370 5 2390808<br>Fax. 370 5 2390808<br>info@apranga.lt<br>www.apranga.lt |
| UAB Apranga BPB LT | Private limited liability company | 29 11 2005 State enterprise Centre of Registers of the Republic of Lithuania | 300509648 | Kirtimų 51, Vilnius, Lithuania | Tel. 370 5 2390808<br>Fax. 370 5 2390808<br>info@apranga.lt<br>www.apranga.lt |
| UAB Apranga PLT | Private limited liability company | 21 03 2007 State enterprise Centre of Registers of the Republic of Lithuania | 300551572 | Kirtimų 51, Vilnius, Lithuania | Tel. 370 5 2390808<br>Fax. 370 5 2390808<br>info@apranga.lt<br>www.apranga.lt |
| UAB Apranga SLT | Private limited liability company | 14 01 2008 State enterprise Centre of Registers of the Republic of Lithuania | 301519684 | Kirtimų 51, Vilnius, Lithuania | Tel. 370 5 2390808<br>Fax. 370 5 2390808<br>info@apranga.lt<br>www.apranga.lt |
| UAB Apranga MLT | Private limited liability company | 13 05 2011 State enterprise Centre of Registers of the Republic of Lithuania | 302627022 | Kirtimų 51, Vilnius, Lithuania | Tel. 370 5 2390808<br>Fax. 370 5 2390808<br>info@apranga.lt<br>www.apranga.lt |
| SIA Apranga | Private limited liability company | 20 11 2002 Enterprise Register of the Republic of Latvia | 40003610082 | Elizabetes 51, Riga, Latvia | Tel. 371 6 7240020<br>Fax. 371 6 7240019<br>info@apranga.lt<br>www.apranga.lt |
| SIA Apranga LV | Private limited liability company | 30 03 2004 Enterprise Register of the Republic of Latvia | 40003672631 | Elizabetes 51, Riga, Latvia | Tel. 371 6 7240020<br>Fax. 371 6 7240019<br>info@apranga.lt<br>www.apranga.lt |
| SIA Apranga BPB LV | Private limited liability company | 10 01 2007 Enterprise Register of the Republic of Latvia | 40003887840 | Elizabetes 51, Riga, Latvia | Tel. 371 6 7240020<br>Fax. 371 6 7240019<br>info@apranga.lt<br>www.apranga.lt |
| SIA Apranga PLV | Private limited liability company | 10 01 2007 Enterprise Register of the Republic of Latvia | 40003887747 | Elizabetes 51, Riga, Latvia | Tel. 371 6 7240020<br>Fax. 371 6 7240019<br>info@apranga.lt<br>www.apranga.lt |
| SIA Apranga SLV | Private limited liability company | 19 11 2008 Enterprise Register of the Republic of Latvia | 50103201281 | Terbatas 30, Riga, Latvia | Tel. 371 6 7240020<br>Fax. 371 6 7240019<br>info@apranga.lt<br>www.apranga.lt |
| SIA Apranga MLV | Private limited liability company | 30 11 2011 Enterprise Register of the Republic of Latvia | 40103486301 | Terbatas 30, Riga, Latvia | Tel. 371 6 7240020<br>Fax. 371 6 7240019<br>info@apranga.lt<br>www.apranga.lt |
| OU Apranga | Private limited liability company | 19 07 2006 Tallinn City Court Register department | 11274427 | Pärnu 10, Tallinn, Estonia | Tel. 372 6663444<br>Fax. 372 6663445<br>info@apranga.lt<br>www.apranga.lt |
| OU Apranga Estonia | Private limited liability company | 12 04 2004 Tallinn City Court Register department | 11026132 | Pärnu 10, Tallinn, Estonia | Tel. 372 6663444<br>Fax. 372 6663445<br>info@apranga.lt<br>www.apranga.lt |

| Title | Legal form | Date and place of registration | Enterprise code | Register-ed office | Telephone, fax, e-mail, www |
|---|---|---|---|---|---|
| OU Apranga BEE | Private limited liability company | 04 09 2007 Tallinn City Court Register department | 11419148 | Pärnu 10, Tallinn, Estonia | Tel. 372 6663444<br>Fax. 372 6663445<br>info@apranga.lt<br>www.apranga.lt |
| OU Apranga PB Trade | Private limited liability company | 21 08 2008 Tallinn City Court Register department | 11530250 | Pärnu 10, Tallinn, Estonia | Tel. 372 6663444<br>Fax. 372 6663445<br>info@apranga.lt<br>www.apranga.lt |
| OU Apranga ST Retail | Private limited liability company | 21 08 2008 Tallinn City Court Register department | 11530037 | Pärnu 10, Tallinn, Estonia | Tel. 372 6663444<br>Fax. 372 6663445<br>info@apranga.lt<br>www.apranga.lt |
| OU Apranga MDE | Private limited liability company | 21 02 2014 Tallinn City Court Register department | 12617929 | Pärnu 10, Tallinn, Estonia | Tel. 372 6663444<br>Fax. 372 6663445<br>info@apranga.lt<br>www.apranga.lt |

At the end of 2014, the Group consisted of 18 companies.

Structure of the Group at 31 December 2014:

**APB APRANGA**

| **LITHUANIA** | **LATVIA** | **ESTONIA** |
|---|---|---|
| | SIA Apranga | OU Apranga |
| UAB Apranga LT | SIA Apranga LV | OU Apranga Estonia |
| UAB Apranga BPB LT | SIA Apranga BPB LV | OU Apranga BEE |
| UAB Apranga PLT | SIA Apranga PLV | OU Apranga PB Trade |
| UAB Apranga SLT | SIA Apranga SLV | OU Apranga ST Retail |
| UAB Apranga MLT | SIA Apranga MLV | OU Apranga MDE |

For more information on subsidiaries refer to Note 14 to Consolidated financial statements.

## 2. OPERATING HIGHLIGHTS

In 2014, facing a significant increase in competition, Apranga group focused on maintenance of record results achieved last year, further development and modernization of the retail chain, increase in sales, strengthening the competitiveness of the Group.

The Group in 2014 managed to increase sales and profits, also to ensure the rapid pace of development and modernization of the retail chain.

### 2.1 RETAIL MARKET OVERVIEW

The turnover of the retail chain operated by Apranga Group has made LTL 633.5 million (incl. VAT) in 2014, and increased by 8.5% comparing to the year 2013. Despite the geopolitical uncertainty, the significantly increased competition in clothes market in Baltics, and unfavorable for the fashion business weather conditions (especially in September-December) the Group by 1.0% (LTL 5.5 million) exceeded the retail turnover planned for the year 2014.

According to EUROSTAT data, the retail trade (except of motor vehicles and motorcycles) in Baltic States during the 12 months 2014 grew the most in Estonia (+7%) and Lithuania (+5%). In Latvia the retail trade growth rate also remained at a high level, but was a bit slower than in the other Baltic countries and amounted to 4%. In the fourth quarter of 2014 the retail trade growth in the Baltic countries was quite in line with the average annual results. European Union (28 countries) retail trade over the past year increased by 1.8% (the year before retail trade declined by 0.2%), and during the last quarter of 2014 the retail trade has increased by 2.7%.

The Group in 2014 exceeded the pre-crisis level of retail trade turnover by 24.4% (in 2008, turnover of the Group amounted to LTL 509.2 million).

Retail turnover of Group's stores by countries (LTL thousand, VAT included):

| Chain | 2014 | 2013 | 2012 | 2014/2013, % | 2014/2012, % |
|---|---|---|---|---|---|
| Lithuania | 382 986 | 366 613 | 337 744 | 4,5% | 13,4% |
| Latvia | 163 347 | 145 165 | 125 737 | 12,5% | 29,9% |
| Estonia | 87 179 | 72 146 | 66 176 | 20,8% | 31,7% |
| **Total:** | **633 512** | **583 924** | **529 657** | **8,5%** | **19,6%** |

In 2014, the turnover of the retail chain operated by Apranga Group amounted to LTL 383.0 million in the main domestic market of Lithuania, or by 4.5% more than in 2013. The share of Lithuanian chain turnover comprised 60.5%, or by 2.3 point less than in 2013.

The retail turnover of the Apranga Group chain in foreign markets (Latvia and Estonia) reached LTL 250.5 million in 2014, or by 15.3% more, than in 2013. The foreign turnover share in total Group's turnover has increased from 37.2% to 39.5% during the year.

The retail turnover of the Apranga Group chain in Latvia has made LTL 163.3 million in 2014 and has increased by 12.5% during the year.

The retail turnover of the Apranga Group chain in Estonia amounted to LTL 87.2 million and has increased by 20.8% in comparison to 2013.

The highest growth rates in 2014 were recorded in Estonia (+20.8%). High rate of growth in Estonia was mostly influenced by the relatively high number of stores opened (opened 7 new stores and closed 2) in the year 2014.

The retail turnover of Apranga Group in 2013-2014, by quarters:

| | Q1 | Q2 | Q3 | Q4 | Year |
|---|---|---|---|---|---|
| 2014 | 132 906 | 145 865 | 177 195 | 177 546 | 633 512 |
| 2013 | 118 240 | 133 830 | 167 840 | 164 014 | 583 924 |
| Total change, % | 12,4% | 9,0% | 5,6% | 8,3% | 8,5% |

In 2014 the Group consistently developed 5 different store chains:

- Economy – clothes to whole family (Apranga);
- Business wear (City, Massimo Dutti, Strellson, Marella, Pennyblack, Coccinelle);
- Youth clothes (Aprangos galerija, Moskito, Mango, Bershka, Pull & Bear, Stradivarius, ALDO, Mexx, Promod, Desigual, Tom Tailor, s.Oliver);
- Prestige – luxury fashion (Burberry, Emporio Armani, Hugo Boss, Ermenegildo Zegna, MaxMara, Weekend MaxMara, Armani Jeans, Marina Rinaldi, Tommy Hilfiger, Mados linija, Nude);
- Zara franchise stores.

The Group also run 7 outlets as at 31 December 2014.

Retail turnover of Group's stores by chains (LTL thousand, VAT included) was as follows:

| Chain | 2014 | 2013 | 2012 | 2014/2013, % | 2014/2012, % |
|---|---|---|---|---|---|
| Economy | 64 273 | 57 642 | 55 838 | 11,5% | 15,1% |
| Youth | 210 672 | 197 361 | 178 959 | 6,7% | 17,7% |
| Business | 102 610 | 84 910 | 61 262 | 20,8% | 67,5% |
| Luxury | 83 389 | 69 788 | 57 544 | 19,5% | 44,9% |
| Zara | 149 367 | 152 799 | 154 481 | -2,2% | -3,3% |
| Outlets | 23 201 | 21 424 | 21 573 | 8,3% | 7,5% |
| **Total** | **633 512** | **583 924** | **529 657** | **8,5%** | **19,6%** |

The company's strategy in recent years, pointing to the priority of development of Business and Luxury chains, fully justified itself and helped to maintain solid growth in the total turnover. In January-December 2014, Business and Luxury chains grew by 20.8% and 19.5%, respectively. Business chain has increased by 67.5% over the past two years, Luxury chain – by nearly 45%. Such growth was achieved mainly due to new store openings (Burberry, Weekend MaxMara, Armani Jeans, City, Massimo Dutti), as well as due to rising consumption in these segments. Economy chain in 2014 also showed high turnover growth rate (11.5%).

## 2.2 DEVELOPMENT AND MODERNIZATION OF THE RETAIL CHAIN

In order to strengthen the company's competitiveness and to profit from the positive sales growth trends in different segments of the market in 2014, the Group sought to speed up the process of development and modernization of the chain.

In 2011-2014 the dynamics of the number of stores and sales area was as follows:

| | 31 12 2011 | 31 12 2012 | 31 12 2013 | 31 12 2014 |
|---|---|---|---|---|
| The number of stores | 121 | 134 | 148 | 161 |
| Stores area (thousand sq. m.) | 64,7 | 66,3 | 69,7 | 73,2 |

During the year 2014 the Group opened 20, reconstructed 8 and closed 7 stores. The total sales area operated by the Group during the year 2014 increased by 5.1%.

The total area of stores by countries was as follows (thousand sq. m):

| Country | 31 12 2014 | 31 12 2013 | Change |
|---|---|---|---|
| Lithuania | 44,0 | 43,2 | 1,9% |
| Latvia | 20,4 | 19,7 | 3,5% |
| Estonia | 8,9 | 6,9 | 29,3% |
| **Total:** | **73,2** | **69,7** | **5,1%** |

In 2014, the Group opened 20 new stores, including four ALDO, three Armani Jeans, two Weekend MaxMara, one of each Burberry, Hugo Boss, Zara, Massimo Dutti, Bershka, City, Tommy Hilfiger, Marella, Moskito, Desigual and Autlets A stores. Most of the new projects realized in Lithuania and Estonia (8 and 7 new stores, accordingly).

Given the global trends, the Group in the spring of 2014 began to develop luxury stores in shopping malls. Solely in 2014 opened 3 Armani Jeans and 2 Weekend MaxMara stores in the Baltic capitals shopping malls.

In order to maintain a high level of technology and the competitiveness of the chain, the Group has continued the program of retail chains' modernization. During the year 2014, totally 8 stores were reconstructed, including 3 Mango, 2 Apranga, Hugo Boss, Bershka and s.Oliver stores.

The number of stores by countries was as follows:

| Country | 31 12 2014 | 31 12 2013 | Change |
|---|---|---|---|
| Lithuania | 97 | 92 | 5,4% |
| Latvia | 44 | 41 | 7,3% |
| Estonia | 20 | 15 | 33,3% |
| **Total** | **161** | **148** | **8,8%** |

At 31 December the number of stores by chains was as follows:

| Chain | 31 12 2014 | 31 12 2013 | Change |
|---|---|---|---|
| Economy | 12 | 12 | 0,0% |
| Youth | 82 | 79 | 3,8% |
| Business | 24 | 21 | 14,3% |
| Luxury | 26 | 19 | 36,8% |
| Zara | 10 | 10 | 0,0% |
| Outlets | 7 | 7 | 0,0% |
| **Total** | **161** | **148** | **8,8%** |

Total investments into development of the chain amounted to LTL 32.2 million in 2014, the most since 2007, a record level of investments. Investments (acquisitions) by assets type are presented in Note 12 ("Property, plant and equipment") and Note 13 ("Intangible assets") of Notes to consolidated and Company's financial statements. Investments (acquisitions) by segments are disclosed in Note 4 ("Segment information"). The Group is not engaged in activities related to research and experimental development, except to the extent of process improvement.

## 2.3 MAIN INDICATORS

Apranga Group has achieved the growth both in turnover and in profit in 2014, despite the significantly increased competition and unfavorable for the fashion business weather conditions (especially in September-December).

The Group has earned LTL 45.8 million of *profit before income tax* in 2014, while profit before taxes was LTL 45.3 million during 2013, an increase of 1.0%.

*EBITDA* of the Group totalled LTL 65.3 million during 2014, and it was LTL 64.1 million in corresponding previous year period. EBITDA margin has decreased from 13.7% to 12.9% during the year. ROE and ROA ratios reached 24.5% and 16.5% correspondently.

| **Main Group Indicators** | **2014** | **2013** | **2012** | **2011** | **2010** |
|---|---|---|---|---|---|
| Net sales, LTL thousand | 505 077 | 466 673 | 423 441 | 340 781 | 301 319 |
| Net sales in foreign markets, LTL thousand | 198 943 | 175 312 | 155 626 | 125 598 | 109 608 |
| Like-to-like sales, % | 1,7% | 1,7% | 17,0% | 10,7% | -2,4% |
| Gross profit, LTL thousand | 236 472 | 218 971 | 198 481 | 159 961 | 133 804 |
| Gross margin, % | 46,8% | 46,9% | 46,9% | 46,9% | 44,4% |
| Operating profit, LTL thousand | 46 063 | 45 473 | 44 083 | 29 968 | 16 908 |
| Operating profit margin, % | 9,1% | 9,7% | 10,4% | 8,8% | 5,6% |
| EBT, LTL thousand | 45 789 | 45 346 | 44 019 | 29 749 | 16 043 |
| EBT margin, % | 9,1% | 9,7% | 10,4% | 8,7% | 5,3% |
| Profit (loss) for the period, LTL thousand | 38 738 | 38 128 | 36 897 | 24 814 | 13 337 |
| Profit (loss) for the period margin, % | 7,7% | 8,2% | 8,7% | 7,3% | 4,4% |
| EBITDA, LTL thousand | 65 278 | 64 093 | 61 412 | 47 612 | 36 815 |
| EBITDA margin, % | 12,9% | 13,7% | 14,5% | 14,0% | 12,2% |
| Earnings (losses) per share (EPS), LTL | 0,70 | 0,69 | 0,67 | 0,45 | 0,24 |
| Price-to-Earnings ratio (P/E), times | 12,9 | 13,0 | 11,0 | 11,2 | 29,6 |
| Dividend / Profit for the period*, % | 64,1% | 72,5% | 82,4% | 82,4% | 103,6% |
| Return on equity (end of the period), % | 24,5% | 25,9% | 26,4% | 20,2% | 11,9% |
| Return on assets (end of the period), % | 16,5% | 18,7% | 18,9% | 15,4% | 9,3% |
| Net debt to equity**, % | 11,1% | -2,2% | -6,3% | -5,6% | 0,0% |
| Current ratio, times | 1,9 | 2,3 | 2,2 | 2,6 | 2,1 |

* The year 2014 dividends not aproved
** (Interest bearing liabilities less cash) / Equity

The *operating expenses* of the Group totalled LTL 190.4 million during 2014 and increased by 9.7%, comparing to the same period 2013 (while sales increased by 8.2% during this period).

| **Main Group Indicators** | **2014** | **2013** | **Change** |
|---|---|---|---|
| Net sales, LTL thousand | 505 077 | 466 673 | 8,2% |
| Net sales in foreign markets, LTL thousand | 198 943 | 175 312 | 13,5% |
| Gross profit, LTL thousand | 236 472 | 218 971 | 8,0% |
| Operating expenses | (190 409) | (173 498) | 9,7% |
| Operating profit, LTL thousand | 46 063 | 45 473 | 1,3% |
| EBT, LTL thousand | 45 789 | 45 346 | 1,0% |
| Net profit (losses), LTL thousand | 38 738 | 38 128 | 1,6% |
| EBITDA, LTL thousand | 65 278 | 64 093 | 1,8% |

The *finance costs* of the Group were LTL 0.27 million in 12 months 2014 (about 0.1% of the total costs of the Group). Total *finance debts* of the Group amounted for LTL 25.1 million at 31 December 2014 (LTL 5.0 million at 31 December 2013). Finance debts increased mainly due to the need to finance an increased working capital, investments to new and reconstructed stores, and also to the fact that the Company paid relatively high dividends (72.5% of profit) of LTL 27.6 million in May 2014.

The Group's level of inventories during the year grew by 21.5% (the increase from LTL 88.7 million to LTL 107.7 million). Company's inventories grew by 22.5%. The growth of inventories was driven both by new stores openings, and increase of 'warm' clothes stock due to unfavorable weather conditions.

For additional information on the operations by countries of the Group refer to Note 4 to the Consolidated financial statements.

## 2.4 PERSONNEL

Average number of employees and average salary by categories in 2014 were as follows:

| | **Number of employees** | | **Average monthly salary, LTL** | |
|---|---|---|---|---|
| **Employee category** | **Group** | **Company** | **Group** | **Company** |
| Administration | 157 | 100 | 6 829 | 8 510 |
| Stores' personnel | 1 662 | 613 | 1 826 | 1 985 |
| Logistics | 57 | 57 | 2 320 | 2 320 |
| **Total** | **1 876** | **770** | **2 515** | **2 859** |

The average monthly salary in the Group has increased by 1.5% during the year.

During the 2014 the number of employees in the Group and the Company has increased by 151 (+8.8%) and 48 (+6.6%) people, respectively. The main reasons of the increase were opening of the new stores and the increase of turnover.

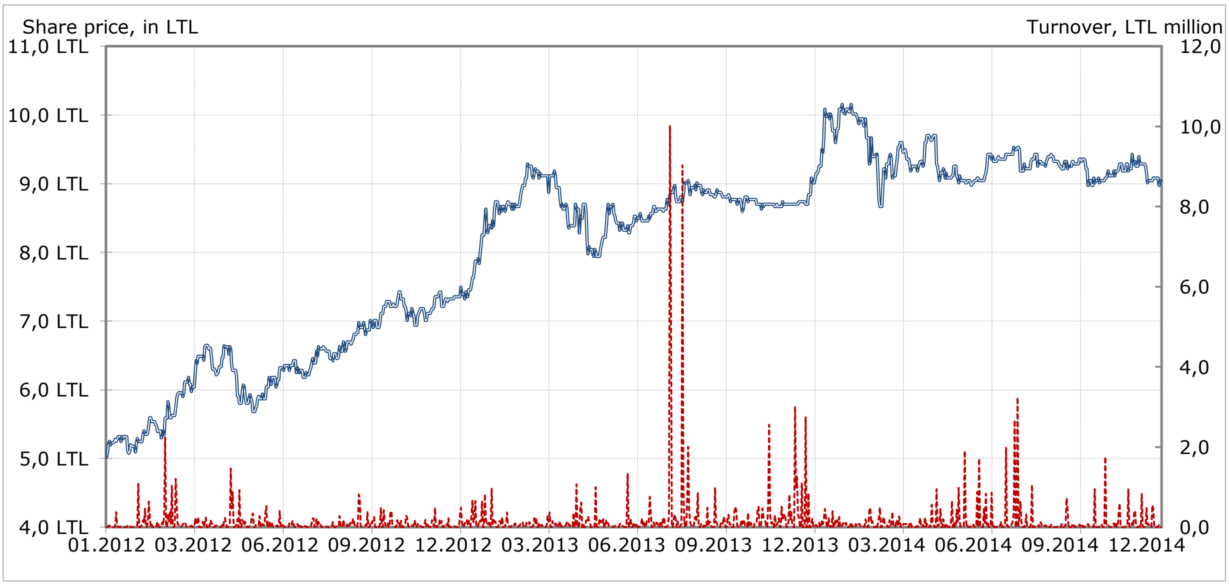
Average number of employees by education level in 2014 was as follows:

| **Education level** | **Group** | **Company** |
|---|---|---|
| High | 499 | 279 |
| Professional | 230 | 120 |
| Secondary | 220 | 78 |
| Basic | 13 | 1 |
| Student | 914 | 292 |
| **Total:** | **1 876** | **770** |

## 2.5 TRADING INFORMATION

*The price of the Company share* during the year 2014 increased by 1% from LTL 8.98 per share (the minimum share price during the year was LTL 8.49 per share) to LTL 9.05 per share (the maximum share price during the year was LTL 10.15 per share). In this way, the market capitalization of the Company increased from LTL 496 million at the beginning of the year to LTL 500 million at the end of December 2014. The weighted average price of share during the year 2014 was LTL 9.31 per 1 share. Company's share turnover was over LTL 46 million during the year.

Company share price and share turnover during the period 2012-2014:



Company and OMX Baltic Benchmark GI index change for the period 2010-2014:


## 3. OPERATING PLANS

Apranga Group plans to reach LTL 704 million turnover (including VAT) in 2015, or by 11% more, than actual the year 2014 turnover.

Apranga Group plans to open or reconstruct 16-20 stores during 2015. Investments are planned to amount to about LTL 20-25 million.

## 4. BUSINESS PHILOSOPHY

- We work and strive to work only with the fastest-growing, commercially the most successful global brands and chains operating in different markets and acceptable to our market;
- We never make compromises in the selection of the best locations for stores ("Location – more important than money", "We have to be where we can not not to be";
- We aim to install stores according to the highest European design and technology requirements;
- We strive to use in best the power of the obvious market leader, as well as rapid development opportunities in competitive environment.

## 5. RISKS

In its activities the Group is exposed to various risks (regulatory, operational, investment, market, competition, economic cycle, macroeconomic factors, etc.), but only some of which may significantly affect the Group's results.

The Group's activities are significantly influenced by overall *economic* situation (and especially by the economic cycles) in countries where the Group operates. In recent years, the Baltic economies are rapidly recovering from the economic crisis, but there is still uncertainty in the European Union and the global economy development trends. It is difficult to reliably assess the impact on the financial position of any further global macro-economic developments. However, management believes that even the minimum economic growth of the Baltic countries forms the basis for the Group's normal activity and steady growth.

*The competition-related risk*. In its activities the Group is exposed to increasingly intense competition in the clothing market. The Group, in order to manage this risk and to meet the customer service quality standard requirements, continuously carries out chain expansion and modernization, improves its sales and marketing strategies, carries out market research, improves customer service and implements a consistent business process optimization and cost reduction program. In its activities, the Group consistently follows the principles of transparency and fair competition.

*Weather conditions* influences the Group's activity and results to some extent as well. The Group's operating results are planned assuming that the weather conditions will be normal, i.e., usual for the Baltic region. Unfavorable weather conditions may negatively affect the Group's turnover, at the same time, financial performance and inventories level.

**The main features of the Group's internal control and risk management systems related to preparation of consolidated financial statements.**

The Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. Chief financial officer (CFO) of the Company and the Audit Committee supervises preparation of the consolidated financial statements, systems of internal control and financial risk management and how the Company follows legal acts that regulate preparation of consolidated financial statements. CFO of the Company is responsible for the preparation supervision and the final revision of the consolidated financial statements. He constantly reviews International Financial Reporting Standards (IFRS) in order to implement in time IFRS changes, analyses Company's and group's significant transactions, ensures collecting information from the Group's companies and timely and fair preparation of this information for the financial statements. In order to ensure that the consolidated financial statements are prepared correctly and on time, the Group has established appropriate rules and the procedures which regulates the principles, methods, and rules of accounting and preparation and presentation of consolidated financial statements. More information on the principles of preparation of the consolidated financial statements is presented in Note 2.4 to the Consolidated financial statements and in part 7 to the Consolidated annual report.

The types of *financial risks* that Group faces and risk management are described in Note 3 to the Consolidated financial statements.

## 6. ENVIRONMENTAL PROTECTION

Group uses the latest technology and the latest technology processes that meet environmental standards and help reduce the negative impact on the environment (for example, the Group uses the paper packaging materials instead of plastic in most of its stores). In 2014, the Group reduced the usage of heat energy by 2 percent. Consumption of electricity increased by 3%, when the store area increased by 5%. Water consumption increased in proportion to the growth in the number of employees.

## 7. CONSOLIDATION

In order to ensure the fairness of preparation consolidated financial statements and to reduce associated risks, the unified centralised accounting and business information management system has been implemented in all Group companies. All Group companies use the standard chart of accounts and apply unified accounting principles.

More information on the principles of preparation of the consolidated financial statements is presented in Note 2.4 to the Consolidated financial statements.

## 8. SECURITIES

All 55 291 960 ordinary shares of nominal value LTL 1 each (ISIN code LT0000102337) that comprise Company's share capital are listed on Baltic equity list of Nasdaq Vilnius Stock Exchange. For more information on the share capital of the Company refer to Note 22 to Consolidated financial statements.

Neither Company, nor its subsidiaries directly or indirectly acquired own shares. By the knowledge of the Company's management, there are no restrictions imposed on transfer of Company's shares. All Company's shares give equal rights to shareholders and there are no shareholders with special control rights.
By the knowledge of the Company's management, there are no restrictions imposed on voting rights.
By the knowledge of the Company's management, there are no agreements among shareholders which may limit transfer of shares, or their voting rights.

Each owner of the ordinary registered share has the following property rights:

1) To receive part of the company's profit (dividend);
2) To receive a part of the assets of the company in liquidation;

3) To receive shares without payment if the share capital is increased out of the company's funds, except the cases specified in the Law on Companies.
4) To have the pre-emption right to acquire the shares or convertible debenture issued by the company, except in cases when General Shareholder's Meeting pursuant to Law on Companies decides to withdraw the pre-emption right in acquiring the company's issued shares for all shareholders;
5) As provided by laws to lend to the company, however the company borrowing from its shareholders has no right to mortgage or pledge its assets to shareholders. When the company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has his/her place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case the company and shareholders are prohibited from negotiating a higher interest rate;
6) To receive Company's funds in event the share capital is decreased on purpose to pay Company's funds to shareholders;
7) Shareholders have other property rights provided by laws of the Republic of Lithuania.

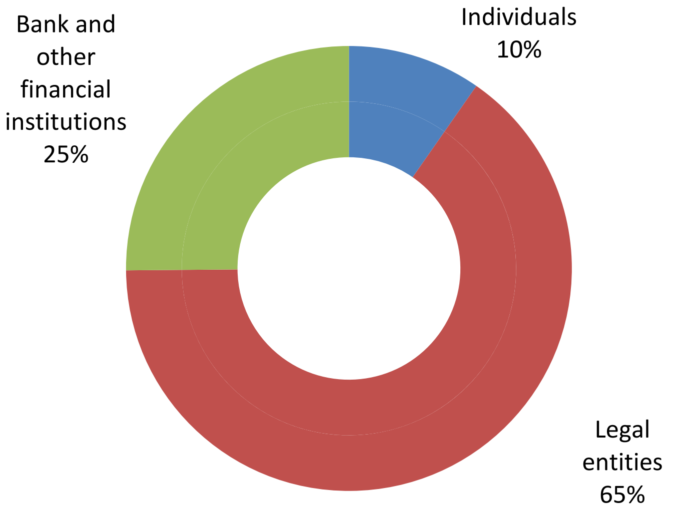
Each owner of the ordinary registered share has the following non-property rights:

1) To attend and vote in General Shareholder's Meetings. One ordinary registered share grants to its owner one vote at the General Shareholders' Meeting. The right to vote at the General Shareholder's Meeting may be withdrawn or restricted in cases established by laws of the Republic of Lithuania, also in cases when share ownership is contested;
2) To receive information on the company as provided by Law on Companies;
3) To file a claim to the court requesting compensation of damage to company resulting from non-performance or improper performance of the duties of the Manager of the Company or members of the Board of the company which duties have been prescribed by law and these Articles of Association of the company as well as in other cases as may be prescribed by law;
4) Other non-property rights prescribed by law.

At 31 December 2014 the Company had 2 870 shareholders. Company's shareholders which owned or had under management more than 5% of share capital were as follows:

| Shareholder | Enterprise code | Address | Number of shares | % of total ownership |
|---|---|---|---|---|
| UAB MG Baltic Investment | 123249022 | Jasinskio 16B, Vilnius, Lithuania | 29 677 397 | 53,7% |
| Swedbank AS (Estonia) clients | 10060701 | Liivalaia 8 Tallinn, Estonia | 5 897 625 | 10,7% |
| UAB Minvista | 110685692 | Jasinskio 16, Vilnius, Lithuania | 5 355 627 | 9,7% |

Distribution of holdings according to holder groups at 31 December 2014:

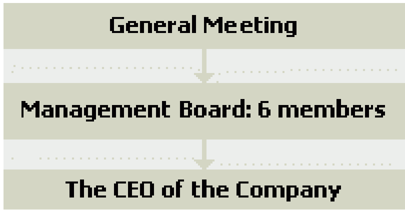



There are no material agreements where the Company is a counterparty and which may come into force, or may change, or may end with the change of control over the Company. Information about related party transactions is provided in the Note 26 to the Consolidated financial statements.

At 23 January 2012 the Company concluded an open-ended agreement with Swedbank AB (entity code: 112029651, address: Konstitucijos 20A, 03502 Vilnius) on supervision of securities accounts.

## 9. CORPORATE GOVERNANCE

The management bodies of the Company specified in the Articles of Association are as follows: General Shareholders' Meeting, a collegial management body – Board, and a single-person management body – Manager of the Company.




Competence of General Shareholders' Meeting is the same as specified by the Law on Companies. The General Meeting shall have the exclusive right to:

1) Amend the Articles of Association of the Company;
2) Elect the members of the Board;
3) Remove the Board or its members;
4) Select and remove the firm of auditors, set the conditions for auditor remuneration;
5) To determine the class, number, nominal value and the minimum issue price of the shares issued by the Company;
6) Take a decision regarding conversion of shares of one class into shares of another class, approve share conversion procedure;
7) Approve the annual accounts;
8) Take a decision on profit/loss appropriation;
9) Take a decision on the formation, use, reduction and liquidation of reserves;
10) Take a decision to issue convertible debentures;
11) Take a decision to withdraw for all the shareholders the right of pre-emption in acquiring the shares or convertible debentures of a specific issue of the Company;
12) Take a decision to increase the authorised capital;
13) Take a decision to reduce the authorised capital;
14) Take a decision for the Company to purchase own shares;
15) Take a decision on the reorganisation or division of the Company and approve the terms of reorganisation or division;
16) Take a decision to transform the Company;
17) Take a decision to restructure the Company;
18) Take a decision to liquidate the Company, cancel the liquidation of the Company, except where otherwise provided by the Law on Companies;
19) Elect and remove the liquidator of the Company, except where otherwise provided by the Law on Companies.

General Shareholders' Meeting has a right to amend the Articles of Association under the qualified majority of votes, which may not be less than 2/3 of all votes the shareholders attending at the Meeting, except for the exceptions specified by Law on Companies.

The Board, consisting of six members, is elected by General Shareholders' Meeting for a 4 year term. Company's Board members election and revocation procedure is the same as specified by Law on Companies. Company's Board activity is conducted by chairman of the Board. The Board elects its chairman from among its members. The Board continues in office for the period established in the Articles of Association or until a new Board is elected and assumes the office but not longer than until the annual General Shareholders' Meeting during the final year of its term of office.

Board of Company considers and approves:
1) The activity strategy of the Company;
2) The annual report of the Company;
3) The management structure of the Company and the positions of the employees;
4) The positions to which employees are recruited by competition;
5) Regulations of branches and representative offices of the Company.

The Board adopts the following resolutions:
1) Resolutions for the Company to become an incorporator or a member of other legal entities;
2) Resolutions to establish branches and representative offices of the Company;
3) Resolutions to invest, dispose of or lease the tangible long-term assets the book value whereof exceeds 1/20 of the share capital of the Company (calculated individually for every type of transaction);
4) Resolutions to pledge or mortgage the tangible long-term assets the book value whereof exceeds 1/20 of the share capital of the Company (calculated for the total amount of transactions);
5) Resolutions to offer surety or guarantee for the discharge of obligations of third persons the amount whereof exceeds 1/20 of the share capital of the Company;

6) Resolutions to acquire the tangible long-term assets the price whereof exceeds 1/20 of the share capital of the Company;
7) Resolutions to restructure the Company in the cases laid down in the Law on Restructuring of Enterprises;
8) Resolutions regarding issuance of debenture of the Company (except issuance of convertible debenture);
9) Other resolutions within the competence of the Board as prescribed by the Articles of Association or the resolutions of the General Shareholders' Meeting.

The Board analyses and assesses the documents submitted by the Manager of the Company on:
1) The implementation of the activity strategy of the Company;
2) The organisation of the activities of the Company;
3) Financial standing of the Company;
4) The results of economic activities, income and cost estimates, the stocktaking data and other accounting data of changes in the assets.

The Board elects and removes from office the Manager of the Company, fixes his/her remuneration and sets other terms of the employment agreement, approves his/her job description, provides incentives and imposes penalties.
The Board analyses and assesses the Company's draft annual financial statement and draft of profit/loss distribution and submits them to the General Shareholders' Meeting together with the annual report of the Company. The Board is responsible for convening and arrangement of the General Shareholders' Meeting in due time.
Each member of the Board is entitled to initiate convening of the Board meeting. The Board may adopt resolutions and its meeting shall be deemed to have taken place when the meeting is attended by more than 2/3 of the members of the Board. The resolution of the Board is adopted if more votes for it are received than the votes against it. In the event of a tie, the Chairman of the Board shall have the casting vote. The member of the Board is not entitled to vote when the meeting of the Board discusses the issue related to his/her activities on the Board or the issue of his/her responsibility.

The Manager of the Company – General Director - is a single-person management body of the Company. The Manager of the Company acts at his/her own discretion in relation of the Company with other persons.

The Manager of the Company is elected and removed from office by the Board which also fixes his/her salary, approves his/her job description, provides incentives and imposes penalties. The employment agreement is concluded with the Manager of the Company and is signed on behalf of the Company by the Chairman of the Board or other person authorized by the Board.

In his/her activities the Manager of the Company complies with laws and other legal acts, Articles of Association, General Shareholders' Meeting resolutions, Board resolutions, his/her job descriptions.
The Manager of the Company acts on behalf of the Company and is entitled to enter into the transactions at his/her own discretion. The Manager of the Company may conclude the following transactions provided that there is a decision of the Board to enter into these transactions: to invest, dispose of or lease the tangible long-term assets the book value whereof exceeds 1/20 of the share capital of the Company (calculated individually for every type of transaction); to pledge or mortgage the tangible long-term assets the book value whereof exceeds 1/20 of the share capital of the Company (calculated for the total amount of transactions); to offer surety or guarantee for the discharge of obligations of third persons the amount whereof exceeds 1/20 of the share capital of the Company; to acquire the tangible long-term assets the price whereof exceeds 1/20 of the share capital of the Company.

The Manager of the Company is responsible for:
1) The organization of the Company's activity and implementation of its objectives;
2) The drawing up of the annual financial statements and the drafting of the annual report of the Company;
3) Concluding an agreement with the firm of auditors;
4) Submission of information and documents to the General Shareholders' Meeting and the Board in cases prescribed by Law on Companies or at their request;
5) Submission of the documents and data of the Company to manager of the Register of Legal Entities;
6) Submission of documents to the Securities Commission and Lithuanian Central Securities Depository;
7) Public announcement of information prescribed by Law on Companies in a daily newspaper indicated in Articles of Association;
8) Submission of information to shareholders;
9) The performance of other duties prescribed by laws as well as in the Articles of Association and the job descriptions of the Manager of the Company.

The Manager of the Company organises daily activities of the Company, hires and dismisses employees, concludes and terminates employment contracts with them, provides incentives and imposes penalties.

The Manager of the Company is responsible for preparation of the draft share subscription agreement and its data correctness. The Manager of the Company issues authorizations and procurations within the scope of its competence.

The Manager of the Company is accountable and regularly reports to the Board on the implementation of Company's activity strategy, the organization of the Company's activity, the financial standing of the Company, the results of economic activity, the income and cost estimates, the stocktaking data and other accounting data of changes in the assets.

## 10. MANAGEMENT OF THE COMPANY

On 29 April 2014 the Annual General Meeting of Company shareholders elected Company's members of the Board for new 4-year term. 28th April 2018 is the end term of all Company's members of the Board.

**BOARD OF THE COMPANY**

**Darius Mockus**
Chairman of the Board

Darius Mockus (born in 1965) - Chairman of the Board since 2 May 2002 (Member of the Board since 23 March 1995). Education: Vilnius University, Faculty of Economics, Industrial Planning. He has no Company shares. With related companies Minvista UAB (Code of Enterprise: 110685692; Registered office: Jasinskio 16, Vilnius), MG Baltic Investment UAB (Code of Enterprise: 123249022; Registered office: Jasinskio 16B, Vilnius) and family members he has 35 038 890 shares, representing 63.37% of the share capital and votes.

Information on positions in other companies:
President and Chairman of the Board of concern MG Baltic UAB;
Chairman of the Board of holding MG Baltic Investment UAB;
General Director and Chairman of the Board of holding MG Baltic Trade UAB;
Chairman of the Board of Mitnija UAB;
Chairman of the Board of Stumbras AB;
Member of the Board of MG Valda AB
Chairman of the Board of Mineraliniai vandenys UAB;
Member of the Board of Mediafon UAB;
Chairman of the Board of Minvista UAB.

Information on shareholdings in other companies above 5%:
Concern MG Baltic UAB - 100% of the share capital;
Minvista UAB – 99.99% of the share capital.

Information about participation in other organizations:
President of Honour of the Lithuanian Tennis Union.

**Rimantas Perveneckas**
Member of the Board, General Director

Rimantas Perveneckas (born in 1960) - APB Apranga group General Director, Member of the Board of APB Apranga since 23 February 1993, in the Company since 1983. Education: Vilnius University, Faculty of Trade, specialization in Trade Economics. He has 800 770 shares of the Company, representing 1.45% of the share capital and votes. Has no positions in other companies. Has no shareholdings in other companies above 5%.

**Ilona Šimkūnienė**
Member of the Board, Purchasing Director

Ilona Šimkūnienė (born in 1963) - Apranga group Purchasing Director, Member of the Board of APB Apranga since 27 March 1998, in the Company since 1985. Education: Vilnius University, Faculty of Trade, specialization in Trade Economics. She has no Company shares.

Information on positions in other companies:
Chairman of the Board of Apranga LT UAB;
Chairman of the Board of Apranga BPB LT UAB;
Chairman of the Board of Apranga PLT UAB;
Chairman of the Board of Apranga SLT UAB;
Chairman of the Board of Apranga MLT UAB;
Chairman of the Board of Apranga LV SIA;
Chairman of the Board of Apranga BPB LV SIA;
Chairman of the Board of Apranga PLV SIA;
Chairman of the Board of Apranga SLV;
Chairman of the Board of Apranga MLV;
Chairman of the Board of Apranga Estonia OU;
Chairman of the Board of Apranga BEE OU;
Chairman of the Board of Apranga PB Trade OU;
Chairman of the Board of Apranga ST Retail OU;
Chairman of the Board of Apranga MDE OU.

Has no shareholdings in other companies above 5%.

**Vidas Lazickas**
Member of the Board

Vidas Lazickas (born in 1965) - Member of the Board of APB Apranga since 29 April 2011. Education: Vilnius University, Faculty of Economics, specialization in Production Management and Organization. He has 50 000 shares of the Company, representing 0.09% of the share capital and votes.

Information on positions in other companies:
Director of Economy and Finances, and Member of Board of concern MG Baltic UAB;
General Director and Member of the Board of holding MG Baltic Investment;
Director and Member of the Board of Minvista UAB;
Member of the Board of MV Eesti OU;
Member of the Board of MV Latvia SIA;
Member of the Board of MV Poland S.P.z.o.o.;
Member of the Board of MG BALTIC MEDIA UAB;
Member of the Board of LNK UAB;
Chairman of the Board of Mitnija UAB;
Member of the Board of MG Valda UAB;
Member of the Board of MG Baltic Trade UAB;
Chairman of the Board of Biofuture AB;
Chairman of the Board of Alita AB;
Chairman of the Board of Anykščių vynas AB.

Has no shareholdings in other companies above 5%.

**Marijus Strončikas**
Member of the Board

Marijus Strončikas (born in 1974) - Member of the Board of APB Apranga since 30 April 2010. Education: Kaunas Technical University, Faculty of Informatics, master of IT Science. He has 4 450 shares of the Company, representing 0.01% of the share capital and votes.

Information on positions in other companies:
IT and Purchasing Director of concern MG Baltic UAB;
Member of the Board of Stumbras AB;
Member of the Board of Mineraliniai vandenys UAB.

Has no shareholdings in other companies above 5%.

**Ramūnas Gaidamavičius**
Member of the Board, Development Director

Ramūnas Gaidamavičius (born in 1968) - APB Apranga group Development Director, Member of the Board of APB Apranga since 30 April 2010, in the Company since 2002. Education: Vilniaus University of Technology, Faculty of Mechanics, specialization in Machine Building. He has 5 000 shares of the Company, representing 0.01% of the share capital and votes.

Information on positions in other companies:
Chairman of the Board of Apranga SIA;
Chairman of the Board of Apranga OU;
Member of the Board of Apranga LT UAB;
Member of the Board of Apranga LV SIA.
Member of the Board of Apranga BPB LV SIA;
Member of the Board of Apranga PLV SIA;
Member of the Board of Apranga SLV SIA;
Member of the Board of Apranga MLV SIA;
Member of the Board of Apranga Estonia OU;
Member of the Board of Apranga BEE OU;
Member of the Board of Apranga PB Trade OU;
Member of the Board of Apranga ST Retail OU;
Member of the Board of Apranga MDE OU.

Has no shareholdings in other companies above 5%.

## MANAGEMENT OF THE COMPANY AND THE GROUP

The key management members of the Company and the Group as of 31 December 2014:

| Name, Surname | Position | Number of shares owned* | Part in the share capital | Start at company |
|---|---|---|---|---|
| Rimantas Perveneckas | General Director | 800 770 | 1,45% | 1983 |
| Ilona Šimkūnienė | Purchasing Director | - | - | 1985 |
| Ramūnas Gaidamavičius | Development Director | 5 000 | 0,01% | 2002 |
| Saulius Bačauskas | Chief Financial Officer | 16 000 | 0,03% | 2003 |
| Aušra Tartilienė | Inditex chain Director | 31 665 | 0,06% | 1989 |
| Irma Marcinkienė | Sales and Marketing Director | 1 863 | 0,003% | 2000 |
| Audronė Martinkutė | Personnel Director | 360 | 0,001% | 2002 |

** with related parties*

Information about CFO of the Company and the Group:

**Saulius Bačauskas**
Chief Financial Officer

Saulius Bačauskas (born in 1974) - Apranga Group Finance and Economics Director, in the Company since 2003. Education: Vytauto Didžiojo University, Business management faculty, MA of finance and banking. He has 16 000 shares of the Company, representing 0.03% of the share capital and votes.

Information on positions in other companies:
Member of the board of Apranga LT UAB;
Member of the board of Apranga BPB LT UAB;
Member of the board of Apranga PLT UAB;
Member of the board of Apranga SLT UAB;
Member of the board of Apranga MLT UAB;
Member of the board of Apranga OU.

Has no shareholdings in other companies above 5%.

Information about members of the management bodies on 31 December 2014 was as follows:

| Name, Surname | Position | Number of shares owned and part in the share capital | Election date | End of term | Amounts received from the Company in 2013, LTL |
|---|---|---|---|---|---|
| Darius Juozas Mockus | Chairman of the Board | - <br> - | 29 04 2014 | 28 04 2018 | Receives no remuneration |
| Rimantas Perveneckas | Member of the Board, General Director | 800 770 <br> 1.45% | 29 04 2014 | 28 04 2018 | - |
| Ilona Simkuniene | Member of the Board, Purchasing Director | - <br> - | 29 04 2014 | 28 04 2018 | - |
| Ramunas Gaidamavicius | Member of the Board, Development Director | 5 000 <br> 0.01% | 29 04 2014 | 28 04 2018 | - |
| Vidas Lazickas | Member of the Board | 50 000 <br> 0.09% | 29 04 2014 | 28 04 2018 | Receives no remuneration |
| Marijus Strončikas | Member of the Board | 4 450 <br> 0.01% | 29 04 2014 | 28 04 2018 | Receives no remuneration |
| Saulius Bačauskas | Chief Financial Officer | 16 000 <br> 0.03% | - | - | - |
| **Dividends and bonuses to members of the board and management, in total (6)** | | | | | **1 155 110** |
| **Dividends and bonuses to members of the board and management, on average (6)** | | | | | **192 518** |
| **Remuneration to members of the board and management, in total (4)** | | | | | **3 244 985** |
| **Remuneration to members of the board and management, on average (4)** | | | | | **811 246** |

There are no agreements between the Company, members of its management bodies, or its employees regarding special compensations in case of their resignation, or dismiss without legitimate reason, or the end of their duties connected with the change of the Control over the Company.

## 11. AUDIT COMMITTEE

The Audit Committee exceptionally (The Security commission of the Republic of Lithuania, No. 1K-18, 21 August 2008, article 4) consists of 2 members, 1 of them is independent. The Audit Committee is elected for a 4-year term. The term of office of the Audit Committee coincides with the term of office of the Management Board. Members of the Audit Committee are elected and recalled by the Board of the Company, except the independent member of the Committee. The independent member of the Audit Committee is elected by the General Shareholders Meeting at the proposal of the Management Board.

The main functions of the Audit Committee are:
- To observe the process of preparation of financial reports;
- To observe the efficiency of systems of internal control, risk management and internal audit, if such functions exist in the Company;
- To observe the process of carrying out an external audit;
- To observe how the external auditor and audit company follow the principles of independence and objectivity;
- To provide the Management Board of the Company in written with recommendations related to selection of an external audit company;
- To inform The Manager of the Company about the information provided by the audit company and audit-related issues under consideration, particularly when significant internal controls weaknesses relating to the Financial Reports are set.

The General Shareholders Meeting hold on 29 April 2014 approved the members of the Audit Committee for the new 4-year term: Rasa Rulevičiūtė (Company management personnel, the deputy of chief financial officer) and Daiva Paulavičienė (the independent member the Committee). None of the members of the Audit Committee has Company's shares.

## 12. COMPLIANCE WITH THE GOVERNANCE CODE

Company essentially follows a recommendatory Corporate Governance Code for the Companies Listed on the Nasdaq Vilnius stock exchange adopted and valid as on 31 December 2014. According to the By-Laws of the Company the governing bodies of the Company are the General Shareholder's Meeting, the Board and the General Manager. The Law of the Republic of Lithuania on Companies provides that Lithuanian companies at their discretion could have only one collegial governing body. There is no Supervisory Council in the Company. The Board consists of six members who are elected for the term of four years, represents the shareholders, and performs supervision and control functions.

For the full text of Compliance Report with the Governance Code for the companies listed on the Nasdaq Vilnius stock exchange refer to Annex 1.

## 13. PUBLICLY ANNOUNCED INFORMATION

The Company in 2014 publicly announced and broadcasted through Nasdaq Vilnius Globe Newswire and own webpage the following information:

| Title | Category of announcement | Lang-uage | Date |
|---|---|---|---|
| Turnover of Apranga Group in December 2013 and total year 2013 | Investor News | En, Lt | 2014-01-02 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-01-02 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-01-02 |
| Notification on APB Apranga manager's transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-01-02 |
| Turnover of Apranga Group in January 2014 | Investor News | En, Lt | 2014-02-03 |
| Establishment of subsidiary of Apranga APB in Estonia | Notification on material event | En, Lt | 2014-02-18 |
| Apranga Group opened the first Burberry store in Lithuania | Press release | En, Lt | 2014-02-24 |
| Apranga Group interim information for the twelve months of 2013 | Interim information | En, Lt | 2014-02-28 |
| Turnover of Apranga Group in February 2014 | Investor News | En, Lt | 2014-03-03 |
| Apranga Group expands luxury segment chain | Press release | En, Lt | 2014-03-21 |
| Turnover of Apranga Group in March 2014 and 1st quarter 2014 | Investor News | En, Lt | 2014-04-01 |
| Notice of the Annual General Meeting of APB "APRANGA" shareholders | Notification on material event | En, Lt | 2014-04-04 |
| Draft resolutions of the Annual General Meeting of APB APRANGA shareholders to be held on April 29th, 2014 | Notification on material event | En, Lt | 2014-04-04 |
| Apranga Group opens the first AJ\|Armani Jeans store in the Baltic States | Press release | En, Lt | 2014-04-24 |
| Resolutions of the Annual General Meeting of Apranga APB shareholders | Notification on material event | En, Lt | 2014-04-29 |
| Apranga APB annual information 2013 | Annual information | En, Lt | 2014-04-29 |
| Apranga Group interim report for three months of 2014 | Interim information | En, Lt | 2014-04-30 |
| Turnover of Apranga Group in April 2014 | Investor News | En, Lt | 2014-05-02 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-05-09 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-05-13 |
| Apranga Group opens the first Massimo Dutti store in Estonia | Press release | En, Lt | 2014-05-15 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-05-20 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-05-22 |
| Turnover of Apranga Group in May 2014 | Investor News | En, Lt | 2014-06-02 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-02 |
| CORRECTION: Resolutions of the Annual General Meeting of Apranga APB shareholders | Notification on material event | En | 2014-06-02 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-05 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-05 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-11 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-16 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-25 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-25 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-25 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-27 |

| | | | |
|---|---|---|---|
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-06-30 |
| Turnover of Apranga Group in June 2014 | Investor News | En, Lt | 2014-07-01 |
| Apranga Group interim information for the six months of 2014 | Interim information | En, Lt | 2014-07-31 |
| Turnover of Apranga Group in July 2014 | Investor News | En, Lt | 2014-08-01 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-08-04 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-08-06 |
| Notification on Apranga APB manager's related party transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-08-06 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-08-14 |
| Turnover of Apranga Group in August 2014 | Investor News | En, Lt | 2014-09-01 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-09-29 |
| Turnover of Apranga Group in September 2014 | Investor News | En, Lt | 2014-10-01 |
| Apranga Group interim information for the nine months of 2014 | Interim information | En, Lt | 2014-10-31 |
| Turnover of Apranga Group in October 2014 | Investor News | En, Lt | 2014-11-03 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-11-06 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-11-14 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-11-19 |
| Turnover of Apranga Group in November 2014 | Investor News | En, Lt | 2014-12-01 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-12-02 |
| The turnover and expansion plans of Apranga Group in 2015 | Notification on material event | En, Lt | 2014-12-04 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-12-19 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-12-23 |
| Notification on APB Apranga manager's transaction | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-12-23 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-12-29 |
| Notification on Apranga APB manager's related party transactions | Notifications on transactions concluded by managers of the companies | En, Lt | 2014-12-29 |
| Apranga Group investor's calendar for the year 2015 | Investor News | En, Lt | 2014-12-30 |

Contents of above mentioned announcements can be obtained on Nasdaq Vilnius Stock Exchange webpage http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=LT0000102337&list=2&tab=news&lang=en and on Company's webpage http://apranga.lt/en/investors/news-and-material-events.

Rimantas Perveneckas
General Director

2 April 2015

**APB APRANGA report concerning the compliance with the Governance Code for the companies listed on Nasdaq Vilnius stock exchange**

The public trade company APRANGA (hereinafter Company), following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of the AB NASDAQ OMX Vilnius, discloses its compliance with the Governance Codefor the companies listed on Nasdaq Vilnius, and its specific provisions:

| **PRINCIPLES/ RECOMMENDATIONS** | **YES/NO /NOT APPLI-CABLE** | **COMMENTARY** |
|---|---|---|
| **Principle I: Basic Provisions**<br>**The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.** | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | Yes | Affirmed Company's development strategy and objectives are published in Company's annual report, in announcements on material events which are published in Company's website http://apranga.lt/en/investors, in Nasdaq Vilnius Stock Exchange information disclosure system, in Central Storage Facility, as well as in presentations to investors by chief executive officer and senior management. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes | The Company implements this recommendation insofar as it is concerned with the close cooperation of Company's management board and chief executive officer and senior management. |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | Yes | |
| **Principle II: The corporate governance framework**<br>**The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.** | | |
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | No | The bodies of the Company are general shareholders' meeting, management board and chief executive officer. Supervisory board is not constituted in the Company, whereas the accountability and control of the single management body - the chief executive officer – is ensured by Company's management board. |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | Yes | Company's collegial management body – management board – is responsible for strategic management of the Company and performs other key functions of corporate governance. The management board is responsible for the effective supervision of the Company's management bodies insofar as it is concerned with the supervision of the activity of chief executive officer. |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | No | The Company has one collegial body and that is management board.<br>See commentary of 2.1. recommendation. |
| 2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up | Yes/No | Recommendations defined in Principles III and IV are not implemented in full extent, however |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. | | the Company complies with all requirements prescribed by legal acts for formation of collegial management body, i.e. board.<br>See commentaries of III and IV principles' recommendations. |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. | Yes | Company's management board consists of 6 (six) members, 3 (three) of whom are representatives of shareholders and the other 3 (three) are chief executive officer and senior managers. In Company's opinion, the number of the management board members is sufficient considering Company's activity extent and number of shareholders. |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. | Not applicable | Supervisory board is not constituted in the Company. See commentaries of 2.1. recommendation. |
| 2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision. | Yes | The chairman of the management board and chief executive officer of the Company are different persons. The chairman of the management board has never been appointed as chief executive officer of the Company. |
| **Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**<br>**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.** | | |
| 3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. | Yes | The mechanism of the formation of Company's management board ensures objective and fair supervision of the Company's single management body, chief executive officer, and senior management as well as representation of minority shareholder's interests. |
| 3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its | Yes/No | The information about management board members positions taken or participation in other companies activities is continually collected and on the expiration of each year this information is specified and renewed by querying each board member, and such information is disclosed in Company's annual and interim reports and Company's website. However this information was not submitted exclusively to general shareholder's meeting before their election.<br>There was no necessity in the Company to disclose factors affecting candidate's independence. |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| members and disclose this in the company's annual report. | | |
| 3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. | No | See commentary of 3.2 recommendation |
| 3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy. | Yes/No | See commentary of 4.7. recommendation. |
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. | No | There was no demand in Company to offer tailored programs to new board members focused on introducing a member with his/her duties, corporation organization and activities. Annual review of management board members' knowledge is not conducted whereas the management board members, i.e. chief executive officer and senior managers, are professionals and improve their skills and knowledge by conducting their duties in the Company. The skills and knowledge of management board members representing shareholders is reviewed by shareholders themselves before proposing candidates to Company's board. |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members. | No | The issue of election of independent management board members never been topical in the Company and the "sufficient" number of independent management board members was never assessed either. |
| 3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to | Not applicable | See commentary of 3.6 recommendation |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| be independent are the following:<br>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);<br>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group;<br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br>8) He/she has not been in the position of a member of the collegial body for over than 12 years;<br>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.<br>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. | | |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | Not applicable | See commentary of 3.6. recommendation. Moreover, thus far the assessment and disclosure of the independence of management board members, in accordance with the criteria established by this Code, was not applicable in Company. |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | Not applicable | See commentary of 3.6. recommendation |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration. | Not applicable | See commentary of 3.6. recommendation. |
| **Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting** **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.** | | |
| 4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. | Yes | This recommendation is implemented by Company's management board insofar as the management board issues recommendations to chief executive officer and to senior management and monitors and controls their activity. |
| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | Yes | According to the Company's available data, management board members act in good will in respect of Company, in the interests of the Company and its shareholders, thus maintaining independence of their decision making. |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the | Yes/No | According to the Company's data, all management board members attended board |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. | | meetings and devoted sufficient time to perform their duties as members of the board. |
| 4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | Yes | Company's shareholders are informed about the Company's affairs, strategies, risk management and resolution of conflicts of interest in a manner prescribed by legal acts. |
| 4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision. | Yes/No | The transactions are concluded in standard terms in pursuance of regular Company's activities.<br>See commentary of 3.6. recommendation. |
| 4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned. | Yes/No | The Company does not implement this recommendation in so far as it is related with formation of Remuneration committee. See commentary of 4.7. recommendation. |
| 4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the | Yes/No | Nomination and Remuneration committees indicated in 4.12-4.13 recommendations are not established in the Company, whereas, in Company‘s opinion, the management board by performing its functions partially performs functions of Nomination and Remuneration committees. Company‘s management board selects a candidate for chief executive officer position and appoints chief executive officer, provides recommendations to chief executive |

| **PRINCIPLES/ RECOMMENDATIONS** | **YES/NO /NOT APPLI-CABLE** | **COMMENTARY** |
|---|---|---|
| collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole. | | officer regarding appointment of senior managers and their remuneration policy. Company's management board affirms Company's strategic plans and objectives and controls their implementation. Moreover, Company's management board affirms Company's budget plans and analyse and assess chief executive officer's and senior management's reports on budget plans' implementation and fund utilization. In pursuance of requirements of Law on Audit (Official Gazette, 2008, No. 82-53233) the Audit committee composed of two members is established in Company. |
| 4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence. | Yes/No | See commentary of 4.7. recommendation. The recommendation is implemented insofar as it is related with Audit committee activity in Company. |
| 4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. | Yes/No | See commentary of 4.7. recommendation. Audit committee is exceptionally composed of two members. |
| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and | No | See commentary of 4.7. recommendation. Audit committee's authority, rights and obligations are stipulated in Internal rules of Audit committed pursuant to applicable legal acts and Audit committee's authority, rights and obligations are approved by general |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. | | shareholders' meeting. Audit committee's authority, rights and obligations stipulated in Internal rules of Audit committee do not differ from those stipulated in legal acts. |
| 4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. | Yes/No | See commentary of 4.7. recommendation. It is stipulated in Internal rules of Audit committed that Company's board members, chief executive officer, chief financial officer, employees of the Company, auditors may be invited to meetings of committee. |
| 4.12. Nomination Committee.<br>4.12.1. Key functions of the nomination committee should be the following:<br>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br>• Properly consider issues related to succession planning;<br>• Review the policy of the management bodies for selection and appointment of senior management.<br>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee. | No | Nomination Committee is not established in Company. (See commentary of 4.7. recommendation). |
| 4.13. Remuneration Committee.<br>4.13.1. Key functions of the remuneration committee should be the following:<br>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance- | No | Remuneration Committee is not established in Company. (See commentary of 4.7. recommendation). |

| **PRINCIPLES/ RECOMMENDATIONS** | **YES/NO /NOT APPLI-CABLE** | **COMMENTARY** |
|---|---|---|
| based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br>• Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;<br>• Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;<br>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;<br>• Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br>• Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.<br>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.<br>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. | | |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose. | | |
| 4.14. Audit Committee.<br>4.14.1. Key functions of the audit committee should be the following:<br>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;<br>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;<br>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;<br>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.<br>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the | Yes/No | Audit committee's rights and obligations stipulated in Internal rules of Audit committee do not differ from those stipulated in legal acts (Law on Audit, Official Gazette, 2008, No. 82-3233). |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.<br>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.<br>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |
| 4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | No | There is no practice in Company on internal assessments of management board activities and notification on it. |
| **Principle V: The working procedure of the company's collegial bodies**<br>**The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.** | | |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. | Yes | Company's management board is conducted by chairman of the management board. |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. | Yes/No | Company's management board meetings are convened depending on the necessity. |
| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | Yes | |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | No | The Company does not implement this recommendation whereas only management board is constituted in the Company. |
| **Principle VI: The equitable treatment of shareholders and shareholder rights**<br>**The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.** | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The Company's capital consists of ordinary registered shares which grant equal rights to their owners. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company informs about the rights attached to the shares of the new issue or those issued earlier in prospects of the shares of new issue, in annual and interim reports and in Company's website. See commentaries of X |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| | | principle's recommendations. |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | No | The management board of the Company adopts resolutions for transactions regarding transferring, investment, pledge or other type of the encumbrance of the tangible long-term assets the book value whereof exceeds 1/20 of the share capital of the Company. |
| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. | Yes | |
| 6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | Company's general shareholders' meeting draft resolutions are published in pursuance of applicable legal acts, i.e. not later than 21 (twenty one) days before shareholders' meeting. General shareholders' meeting draft resolutions and its adopted resolutions are published throughout NASDAQ Vilnius Stock Exchange information disclosure system and are placed on publicly accessible Company's website, in Lithuanian and English. General shareholders' meeting draft resolutions are also placed in Central Storage Facility. |
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | The Company's shareholders are furnished with the opportunity to vote in general shareholders' meeting both personally and throughout duly authorized representatives. On demand of shareholders, the Company may furnish the opportunity to vote in general shareholders' meeting in writing in advance, pursuant to the Article 30 of the Law on Companies. |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies. | No | In Company's opinion, thus far there was no necessity to use modern technologies in general shareholders' meeting participation and voting process via electronic means of communication. |
| **Principle VII: The avoidance of conflicts of interest and their disclosure** **The corporate governance framework should encourage members of the corporate bodies to avoid** | | |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| **conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.** | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | |
| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | Yes | |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | Yes | |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | Yes | |
| **Principle VIII: Company's remuneration policy**<br>**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.** | | |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website. | No | The Company does not prepare and publish remuneration statement. In Company's opinion, such information commercially is not published. Pursuant to law requirements, the Company publishes in Company's annual report information regarding total sums counted to management board members, chief executive officer and chief financial officer during reporting period. |
| 8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. | No | See commentary of 8.1. recommendation. |
| 8.3. Remuneration statement should leastwise | No | See commentary of 8.1. recommendation. |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| include the following information:<br>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;<br>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;<br>• An explanation how the choice of performance criteria contributes to the long-term interests of the company;<br>• An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;<br>• Sufficient information on deferment periods with regard to variable components of remuneration;<br>• Sufficient information on the linkage between the remuneration and performance;<br>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;<br>• Sufficient information on the policy regarding termination payments;<br>• Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;<br>• Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;<br>• Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;<br>• A description of the main characteristics of supplementary pension or early retirement schemes for directors;<br>• Remuneration statement should not include commercially sensitive information. | | |
| 8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. | No | See commentary of 8.1. recommendation. |
| 8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.<br>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:<br>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;<br>• The remuneration and advantages received from any undertaking belonging to the same group;<br>• The remuneration paid in the form of profit sharing | No | See commentary of 8.1. recommendation. |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;<br>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.<br>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;<br>• The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;<br>• All changes in the terms and conditions of existing share options occurring during the financial year.<br>8.5.3. The following supplementary pension schemes-related information should be disclosed:<br>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.<br>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate. | | |
| 8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met. | Not applicable | See commentary of 8.1. recommendation. |
| 8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria. | Not applicable | See commentary of 8.1. recommendation. |
| 8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration. | Not applicable | See commentary of 8.1. recommendation. |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| 8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated. | Not applicable | See commentary of 8.1. recommendation. |
| 8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof. | Not applicable | See commentary of 8.1. recommendation. |
| 8.11. Termination payments should not be paid if the termination is due to inadequate performance. | Not applicable | See commentary of 8.1. recommendation. |
| 8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | Not applicable | See commentary of 8.1. recommendation. |
| 8.13. Shares should not vest for at least three years after their award. | Not applicable | See commentary of 8.1. recommendation. Company's directors are not remunerated in shares. |
| 8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria. | Not applicable | See commentary of 8.1. recommendation. Company's directors are not remunerated in shares, share options or any other right to purchase Company's shares. |
| 8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components). | Not applicable | See commentaries of 8.1. and 8.14 recommendations. |
| 8.16. Remuneration of non-executive or supervisory directors should not include share options. | Not applicable | See commentaries of 8.1. and 8.14 recommendations. |
| 8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration. | Not applicable | See commentary of 8.1. recommendation. |
| 8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. | Not applicable | See commentary of 8.1. recommendation. |
| 8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general | Not applicable | See commentaries of 8.1. and 8.14 recommendations. |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | | |
| 8.20. The following issues should be subject to approval by the shareholders' annual general meeting:<br>• Grant of share-based schemes, including share options, to directors;<br>• Determination of maximum number of shares and main conditions of share granting;<br>• The term within which options can be exercised;<br>• The conditions for any subsequent change in the exercise of the options, if permissible by law;<br>• All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. | Not applicable | |
| 8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval. | Not applicable | |
| 8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting. | Not applicable | |
| 8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy | Not applicable | |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website. | | |
| **Principle IX: The role of stakeholders in corporate governance**<br>**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.** | | |
| 9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | Yes | The Company respects the rights of interest holders, and the interest holders may participate in the management of the Company in the manner prescribed by legal acts. |
| 9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. | Yes | |
| 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes | |
| **Principle X: Information disclosure and transparency**<br>**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.** | | |
| 10.1. The company should disclose information on:<br>1) The financial and operating results of the company;<br>2) Company objectives;<br>3) Persons holding by the right of ownership or in control of a block of shares in the company;<br>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br>5) Material foreseeable risk factors;<br>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br>7) Material issues regarding employees and other stakeholders;<br>8) Governance structures and strategy.<br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. | Yes | The information mentioned in this recommendation is disclosed in announcements on material events published throughout Nasdaq Vilnius Stock Exchange information disclosure system, in Company's website, and in Company's documents of annual and interim information in such scope as it is required by law as well as by International Financial Reporting Standards applicable in European Union. The information is also disclosed by chief executive officer and senior management in presentations to investors. |
| 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. | Yes | The Company provides information about consolidated results of the Company and its subsidiary companies. |
| 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest | Yes/No | See commentary of 3.2 recommendation of III principle.<br>The Company does not prepare and publish remuneration statement, See commentary of 8.1. recommendation of VIII principle. |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. | | |
| 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure. | Yes | Information is disclosed in Company's documents of annual and interim information in such scope as it is required by law as well as by International Financial Reporting Standards applicable in European Union. As well this information is disclosed by chief executive officer and senior management in presentations to investors. |
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | Yes | The information is disclosed pursuant to the requirements of the laws of the Republic of Lithuania. The information is disclosed throughout Nasdaq Vilnius Stock Exchange information disclosure system, thus ensuring simultaneous disclosure of information to investors. The information is straight away placed in Central Storage Facility.<br>The information is disclosed in Lithuanian and English, before or after a trading session on the Nasdaq Vilnius Stock Exchange. |
| 10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | Yes | See commentary of 10.5 recommendation. All the information disclosed throughout Nasdaq Vilnius Stock Exchange information disclosure system and posted in Central Storage Facility is placed on Company's website especially intended for the investors http://apranga.lt/en/investors, in Lithuanian and English. |
| 10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | Yes | See commentary of 10.5 recommendation. |
| **Principle XI: The selection of the company's auditor**<br>**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.** | | |
| 11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | Yes | The audit of annual Company's and its company group consolidated financial statements is performed by independent audit company according to International Financial Reporting Standards applicable in European Union. Audit company also performs the review of the annual report. |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting. | Yes | The candidacy of audit company is proposed by Company's board to general shareholders meeting. |
| 11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also | Yes | There were rendered non-audit services to Company by audit company and audit company has received remuneration for it from the Company during the reporting period. The |

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLI-CABLE | COMMENTARY |
|---|---|---|
| known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting. | | information about rendered non-audit services to Company by audit company will be disclosed to shareholders during general shareholders meeting if for the performance of audit for the financial year starting from January 1st 2015 the same audit company will be proposed for election. The Company's board is informed about the non-audit services rendered to Company by audit company. |

Rimantas Perveneckas
General Director

2 April 2015