AS BALTIKA

Consolidated interim report for the second quarter and 6 months of 2015

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
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E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2015 – 31 December 2015
Reporting period	1 January 2015 – 30 June 2015

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Baltika Group Consolidated interim report for the II quarter and 6 months of 2015 (in thousands euros, unaudited)

BRIEF DESCRIPTION OF BALTIKA GROUP

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo. In addition Baltika operates under franchise agreement British fashion brand Blue Inc London stores in Baltic countries. Baltika uses a vertically integrated business model that combines collection design, manufacturing, supply chain management, logistics, wholesale and retailing.

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

As at 30 June 2015 the Group employed 1,231 people (31 December 2014: 1,228).

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

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding as at 30 June 2015	Holding as at 31 Dec 2014
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[1]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[1]	Lithuania	Retail	100%	100%
OOO „Olivia“[1,2]	Russia	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
OÜ Baltika TP[3]	Estonia	Real estate management	-	100%

[1]Interest through a subsidiary.
[2]OOO “Olivija” represents Russian consolidation group, which also includes OOO „Plazma“ and OOO „Stelsing“.
[3]OÜ Baltika TP and OÜ Baltika Retail merged. OÜ Baltika TP was deleted from the Commercial Registry on 14 May 2015. See also Note 22.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, SECOND QUARTER AND 6 MONTHS OF 2015

Baltika's sales increased by 211 thousand euros that is 2% compared to the same period last year and were 13,181 thousand euros. Largest sales growth figures came from e-commerce with 246% and wholesale and franchise revenue with 39%. Sales in these channels increased by 474 thousand euros compared to the same period last year. Retail sales decreased by 2% compared to last year second quarter. Half-year total sales revenue amounted to 25,506 thousand euros that is 1% more than comparative figure in prior year. Baltika continues the planned development of other (in addition to own retail channel) sales channels. Thus the half-year proportion of sales to wholesale and franchise partners has increased from 7% to 11% and e-store proportion of sales respectively from 0.6% to 2%.

In addition to e-channel revenue strong growth e-com has an important role in supporting retail sales. Increasingly more clients make their choice through e-channel in the form of pre-shopping and then finalising the purchase in regular store or checking from the e-channel whether their chosen product and size are available in their favourite store. Integration of e-channel and regular store for client convenience continues to be important course of direction.

Retail sales in Baltics (91% from retail sales) in the second quarter were 10,692 thousand euros, that is 591 thousand euros i.e. 6% more than in same period last year. Largest sales growth by countries came from Estonia and Lithuania. Sales growth 11% in Estonia was supported by larger sales area. Lithuania has constantly shown this year better results than other Baltic countries. In Lithuania sales and sales efficiency grew by 4% in the second quarter.

To reduce the risks related to Russian business loss making stores have been closed and Russian proportion from retail sales has decreased to 9% in the second quarter compared to 16% in prior year. In Russia, where average sales area in second quarter was 25% lower than in last year same period, revenue also decreased, by -44%. In addition to lower sales area the sales result was impacted by weaker rouble. Efficiency in local currency was not far from that of prior year (-2%). At the same time the operating expense of Russian market decreased much more than only by the reduction of sales area, which ensured for second quarter for the market in total (retail and wholesale) operating without a loss.

Company gross profit margin in the second quarter was 52.1% that is 4.4 percentage points lower than in the same period last year. The main reasons behind the decrease of gross profit margin in second quarter (as well as first half-year) were: increase in goods average purchase price due to US dollar strengthening (lower intake margin compared to last year); need to use up on Baltic market excessive stock resulting from order cancellations of eastern markets (Russia, Belarus and Ukraine) wholesale partners; discounts in Russia from closing sales related to reduction in Russian retail system; general decrease in retail margin from devaluation of rouble and seasonal items deeper discounts due to colder than usual summer. Group gross profit margin is also impacted by structural differences: lower margin wholesale and franchise proportion has increased in second quarter from 6% to 8% and Russian retail that has higher gross profit margin proportion has decreased.

Baltika's second quarter resulted in net profit in the amount of 67 thousand euros. The result of last year same period continued operations was a profit of 405 thousand euros and with discontinued operations result was net profit of 648 thousand euros. Half-year net loss was 1,069 thousand euros. Continued operations comparative period figure was a loss of 505 thousand euros and with discontinued operations net loss of 1,834 thousand euros.

Baltika acts to adjust to the negative external factors impacting 2015 results: unfavourably strong dollar exchange rate to euro that impacts purchase cost, reduction of retail area due to economic situation in Russia, reduced Finnish and Eastern-European tourist flow and spending in Baltics. Activities to reduce parent entity operating expense and improve efficiency continued in the second quarter. Changes made and to be made in product division processes (centralisation of goods purchase management, centrally managed product development processes improvement and implementation in years 2015-2016) and steps taken to optimise level of stock will impact due to long purchase cycle only from next year. First results can be seen in reduced level of materials, where compared to prior year end of June balance has decreased by 19%. As a result of the simplification of management structure, which expense is in second quarter, the number of employees in parent entity has reduced with the half-year by 10 people.

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In connection with Baltika's exit from the Ukrainian retail business in 2014, which represented a major line of business of the Group, the results of the Ukrainian entity are presented as discontinued operation. Therefore the results of the discontinued operation are reported separately from continuing operations, to allow better assessment of the performance of continuing operations.

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

- Supervisory Council of AS Baltika recalled from the Management Board starting from 14 April 2015 Management Board member Andrew James David Paterson.
- Simplifying parent entity management structure, merging Merchandising function with Sales and Marketing division and centralisation of Buying and Supply Chain function.
- The Annual General Meeting of AS Baltika, held on 27 April 2015, approved the Annual report for 2014 and covering of net loss from retained earnings. Meeting elected to extend the powers of current Supervisory Council members for next three year term and agreed to the remuneration of Supervisory Council members in accordance with the proposal. The meeting decided to increase conditionally the share capital of AS Baltika, to issue ordinary shares in accordance with Terms and conditions of Share Option Program proposed by Supervisory Council.
- Baltika e-store andmorefashion.com was elected to be the winner of 2014 *„E-tegu“* (E-com achievement“) on 29 of April in Estonian E-Commerce yearly conference. Baltika was recognized for its achievements in the integration of e-com and regular shops, multilingual e-store that allows better information and choices already before shopping and allows the possibility to shop for wider circle of customers and bigger export possibilities for Baltika.
- Two new stores were opened in Baltika's own retail network in second quarter, both in Estonia. New store representing both Monton and Mosaic brands opened at the end of April in Viljandi and new Monton store opened in Tallinn Lasnamäe Centrum in May. Baltika's brands franchise store portfolio saw addition of one new store in April in Ukraine, with the opening of Monton store in Dnepropetrovsk. Larger renovations took place in Tartu Lõunakeksus Monton and Mosaic stores.

REVENUE

Baltika's second quarter sales revenue increased by 2% and was 13,181 thousand euros. Growth was biggest in other channels – wholesale and franchise growth was 39% and e-channel growth was more than three times that is 246%. Sales through these channels increased by 474 thousand euros compared to the same period last year. Due to the impact of Russian market, retail sales during the second quarter decreased by 2%. At the same time retail sales growth of 6% in Baltic countries makes it second quarter with highest sales in last five years in Baltics. Half-year sales revenue growth is 1%, 25,506 thousand euros in total.

Revenue by activity

Continued operations

EUR thousand	Q2 2015	Q2 2014	+/-	6M 2015	6M 2014	+/-
Retail	11,795	12,064	-2%	22,234	23,173	-4%
Wholesale & Franchise	1,119	805	39%	2,721	1,754	55%
E-com sales	225	65	246%	491	142	246%
Other	42	36	17%	60	72	-17%
Total	**13,181**	**12,970**	**2%**	**25,506**	**25,141**	**1%**

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Revenue including discontinued operations

EUR thousand	Q2 2015	Q2 2014	+/-	6M 2015	6M 2014	+/-
Retail	11,795	12,319[1]	-4%	22,234	24,704	-10%
Wholesale & Franchise	1,119	805	39%	2,721	1,754	55%
E-com sales	225	65	246%	491	142	246%
Other	42	36	17%	60	72	-17%
Total	**13,181**	**13,225**	**0%**	**25,506**	**26,672**	**-4%**

[1]2014 retail revenue includes Ukrainian market sales for the first 4 months.

Stores and sales area

As at 30 June, Group had 131 stores, among which 104 Baltika's own retail stores and 27 franchise stores. During the second quarter two new retail stores were opened: at the end of April Monton and Mosaic multibrand store in Viljandi Centrum and in May Monton store in Lasnamäe Centrum. Viljandi store special new e-ordering system makes customers' options wider. In second quarter one new shop was added into Baltika's franchise store portfolio – in April Monton store was opened in Dnepropetrovsk Ukraine.

Stores by market

	30 June 2015	30 June 2014	Average area change*
Estonia	43	38	0%
Lithuania	28	28	-1%
Latvia	22	22	4%
Russia	11	19	-18%
Ukraine[1]	15	17	-21%
Belarus[2]	2	2	0%
Spain[2]	5	0	-
Russia[2]	5	0	-
Total stores	**131**	**126**	
Total sales area, sqm	**24 473**	**24 112**	**0%**

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

[1]Three franchise shops in Donetsk are currently agreed to be closed for long term. In comparative figures is part of the discontinued operations. Operating franchise shops are with total sales area of 2 804 m^2.

[2]Franchise shops in Belarus, Spain and Russia are with total sales area of 1 620 m^2.

Retail

Retail sales in the second quarter decreased by 2% compared to the same period in previous year and were 11,795 thousand euros. Thereof sales in Baltic countries increased by 591 thousand euros (+6%) and decreased in Russia by 860 thousand euros (–44%). Half-year total retail sales decreased by 4% and were 22,234 thousand euros.

During the second quarter there were changes in Baltics retail sales growth. Latvia who had the highest growth previously stayed at the level of previous year. With the help of increased operating area Estonia had the highest i.e. 11% growth. After joining the eurozone and having weak results at the beginning of this year Lithuania's second quarter result was a strong 4%.

During second quarter Russia's retail sales continued decreasing which is expected as the average sales area in Russia has decreased by 25%. In addition Russia's results in May were weak and the total sales of quarter decreased by 44%. Russia's share in Baltika's retail has dropped under 10% quarterly as well as half-yearly.

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Retail sales by market

EUR thousand	Q2 2015	Q2 2014	+/-	Share	6M 2015	6M 2014	+/-	Share
Estonia	4,996	4,516	11%	42%	9,166	8,718	5%	41%
Lithuania	2,900	2,795	4%	25%	5,548	5,458	2%	25%
Latvia	2,796	2,790	0%	24%	5,313	5,198	2%	24%
Russia	1,103	1,963	-44%	9%	2,207	3,799	-42%	10%
Total	**11,795**	**12,064**	**-2%**	**100%**	**22,234**	**23,173**	**-4%**	**100%**
Ukraine*	0	255	-100%	-	0	1,531	-100%	-

The second quarter trends in sales efficiency were positive as in Baltics sales efficiency growth by 1% and total retail sales decrease by 1% were better indicators than in first quarter of the year. In second quarter average sales area in Baltic countries increased by 5% primarily due to new stores opened in Estonia at the end of last year and during this year. The best sales efficiency growth in second quarter was achieved in Lithuania (4%).

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

	Q2 2015	Q2 2014	+/-	6M 2015	6M 2014	+/-
Estonia	235	238	-1%	219	220	0%
Lithuania	171	165	4%	166	162	2%
Latvia	233	232	0%	222	222	0%
Russia	118	157	-25%	114	155	-26%
Total	**198**	**200**	**-1%**	**188**	**191**	**-2%**

In local currency the sales efficiency in Russia decreased by 2% in the second quarter.

Brands

The most successful Baltika brands in growing revenue in the second quarter were Baltman and Bastion. Baltman increased its sales, sales efficiency and gross profit figures in all Baltic countries in the second quarter, graduates shopping period. Bastion brand introduced in May "Cropped Rose" clothing collection that was created in cooperation with Anne & Stiil for charity. Feminine special summer-clothing collection for a happy and beauty valuing woman supported Bastion sales and brand sales revenue increased in the quarter in total by 16% that is by 61 thousand euros.

Retail revenue by brands

EUR thousand	Q2 2015	Q2 2014	+/-	Share	6M 2015	6M 2014	+/-	Share
Monton	5,214	5,285	-1%	44%	9,732	10,428	-7%	44%
Mosaic	3,763	4,070	-8%	32%	7,129	7,270	-2%	32%
Baltman	1,317	1,244	6%	11%	2,375	2,396	-1%	11%
Ivo Nikkolo	898	938	-4%	8%	1,908	2,027	-6%	9%
Bastion	450	389	16%	4%	809	782	3%	4%
Blue Inc	153	138	11%	1%	281	252	12%	1%
Other	0	0	0%	0%	0	18	-100%	0%
Total	**11,795**	**12,064**	**-2%**	**100%**	**22,234**	**23,173**	**-4%**	**100%**

The results (-1%) of Baltika's biggest brand Monton were influenced by a decrease in Russia's sales revenue. Monton increased its sales and sales efficiency in all Baltic countries and with strong increase in Lithuania's gross profit, the results of the brand were all in all good.

Sales through other channels

Sales result to wholesale and franchise clients was 1,119 thousand euros in the 2015 second quarter, an increase of 314 thousand euros i.e. 39% compared to previous year. During second quarter the growth of whole- and franchise sales continued mainly due to new franchise partners from last year end in Spain and Russia and increased wholesale to Estonian partners.

Sales of e-shop increased in the second quarter by more than three times i.e. 246% and amounted to 225 thousand euros. The orders were made from 33 countries. The top 5 countries were: Estonia (56% of sales), Latvia (15% of sales), Lithuania (8% of sales), Russia (7% of sales) and Finland (5% of sales). The best-selling brands in e-store were Monton, Mosaic and Ivo Nikkolo.

OPERATING EXPENSES AND NET PROFIT

Company gross profit margin in the second quarter was 52.1% that is 4.4 percentage points lower than in the same period last year. One of the reasons of the decrease of gross profit margin in the second quarter is the lower margin in wholesale and franchise, which proportion from sales has increased from 6% to 8%. Also the decrease of Russian retail market has a negative impact, as the gross profit margin in Russian market is considerably higher than in Baltics, thus retail market average margin decreases when the share of Baltics increases. The great impact to Group gross margin has also been the risen purchase price of goods due to strengthening of US dollar. Total quarter gross profit was 6,871 thousand euros and the first half-year gross profit was 12,353 thousand euros.

Distribution expense in the second quarter was 6,034 thousand euros, decreasing 1% compared to the same period in previous year. Reason behind the decrease of distribution expense is cost cuttings in Russian market – in addition to smaller sales area and operating expenses due to closed shops, expenses in euros have decreased due to weaker rouble exchange rate. At the same time operating expenses in Baltic countries have increased due to pricing pressure and increased sales area, thus in total distribution expenses have decreased only by 56 thousand euros.

In the second quarter, general and administrative expense was 608 thousand euros, decreasing 19% compared to the same period in previous year. Previous changes in head-office staff and control of expenses in different areas, for example information technology, bank fees etc., led to 143 thousand euros decrease in expenses compared to the same period last year. With this the second quarter ratio of operating expense to revenue was 50%, which is an improvement by 3 percentage points to same period last year.

Other operating net expense was 40 thousand euros and the operating profit was 189 thousand euros in the second quarter. Same period in previous year operating profit was 507 thousand euros.

Net financial expense in the second quarter was 122 thousand euros, which is 30 thousand euros more than in same period last year. Due to the bond issuance the interest expense has increased.

The second quarter resulted in net profit in the amount of 67 thousand euros. The result of last year comparative period was net profit of 648 thousand euros and comparative figure of continued operations was net profit of 405 thousand euros. The result of half-year is net loss of 1,069 thousand euros. Comparative figure of continued operations is net loss of 505 thousand euros and from discontinued operations net loss of 1,834 euros.

FINANCIAL POSITION

As at 30 June 2015, Group inventories totalled 13,269 thousand euros, decreasing by 146 thousand euros compared to last year-end. Compared to the same seasonal state on 30 June last year the inventories have decreased by 787 thousand euros. Biggest decrease (19%) was in fabric and accessories inventories. Unlike stock level of finished goods, which has a longer purchasing cycle, with leading the material purchasing process accurately it will give faster results, thus the decrease of 450 thousand euros in fabrics and accessories inventories compared to the usual seasonal quantity.

As at 30 June 2015 trade and other payables were 7,032 thousand euros, increase of 13 thousand euros compared to year-end. However taking into account purchasing seasonal factors it is reasonable to have a comparison with the end of June last year when the trade and other payables were 8,087 thousand euros. Due to smaller purchasing and invoices being paid in time payables have decreased by 1,055 thousand euros in a year.

As at 30 June 2015 the total borrowings amounted to 8,271 thousand euros, which signifies together with the usage of overdraft facility change of 995 thousand euros compared to last year-end (31.12.2014: 7,276 thousand euros).

Purchase of material and intangible assets was made in the amount of 376 thousand euros and depreciation and amortisation was 329 thousand euros. Property, plant and equipment and intangible assets at residual value increased by 537 thousand euros compared to last years end and were 7,637 thousand euros.

The second quarter cash-flow from operating activities was 521 thousand euros (II quarter 2014: 203 thousand euros). Due to better inventory management in second quarter the investments to inventories were smaller, which resulted 318 thousand euros better cash-flow from operating activities compared to the second quarter last year. 213 thousand euros were used for investing activities (II quarter 2014: 323 thousand euros). Bank loan repayments were made in amount of 274 thousand euros, at the same time overdraft used limit increased by 109 thousand euros. Total cash-flow for the second quarter was 107 thousand euros (II quarter 2014: 15 thousand euros).

Due to higher needs of financing in the first half-year caused by production cycle and negative cash-flow from operating activities, as at 30 June 2015 the Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 7,685 thousand euros, which has increased by 1,143 thousand euros compared to the end of last year. The net debt to equity ratio was 96% as at 30 June 2015 (31.12.2014: 75%). Ratio increased due to higher borrowings amount and first quarter net loss reducing equity.

PEOPLE

As at 30 June 2015, Baltika Group employed 1,231 people, that is 3 people more than 31 December 2014 (1,228): 643 (31.12.2014: 629) in the retail system, 390 (31.12.2014: 391) in manufacturing and 198 (31.12.2014: 208) at the head office and logistics centre. The 2015 six months' average number of staff was 1,221 (I half-year 2014 with Ukrainian retail market staff: 1,283).

Supervisory Council of AS Baltika decided to recall from Management Board starting from 14 April 2015 Management Board member Andrew James David Paterson.

Baltika Group employees remuneration expense of continued operations in the first half-year amounted to 5,718 thousand euros (I half-year 2014: 5,549 thousand euros). The accrued remuneration with taxes, of the member of the Supervisory Council and Management Board totalled 162 thousand euros (I half-year 2014: 196 thousand euros).

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KEY FIGURES OF THE GROUP (II QUARTER AND 6 MONTHS OF 2015)

	Q2 2015	Q2 2014[1]	Q2 2013	Q2 2012
Revenue (EUR thousand)	13,181	12,970	14,264	13,157
Retail sales (EUR thousand)	11,795	12,064	13,600	12,376
Share of retail sales in revenue	89.5%	93.0%	95.3%	94.1%
Gross margin	52.1%	56.5%	59.2%	59.0%
EBITDA (EUR thousand)	520	804	1,226	1,408
Net profit (EUR thousand)	67	405	624	572
EBITDA margin	3.9%	6.2%	8.6%	10.7%
Operating margin	1.4%	3.9%	5.9%	7.4%
EBT margin	0.5%	3.2%	4.4%	4.4%
Net margin	0.5%	3.1%	4.4%	4.3%

Sales activity key figures	**6M and 30 June 2015**	**6M and 30 June 2014[1]**	**6M and 30 June 2013**	**6M and 30 June 2012**
Revenue (EUR thousand)	25,506	25,141	27,450	25,800
Retail sales (EUR thousand)	22,234	23,173	25,889	23,907
Share of retail sales in revenue	87.2%	92.2%	94.3%	92.7%
Share of exports in revenue	60.8%	63.2%	66.7%	67.9%
Number of stores in retail	104	107	115	106
Number of stores	131	109	115	106
Sales area at the end of period (sqm)	24,473	20,777	22,575	21,368
Number of employees (end of period)	1,231	1,248	1,321	1,289
Gross margin	48.4%	52.7%	55.4%	55.0%
EBITDA (EUR thousand)	-194	291	1,072	1,123
Net profit (EUR thousand)	-1,069	-505	21	-471
EBITDA margin	-0.8%	1.2%	3.9%	4.4%
Operating margin	-3.3%	-1.3%	1.1%	0.7%
EBT margin	-4.2%	-1.9%	0.1%	-1.7%
Net margin	-4.2%	-2.0%	0.1%	-1.8%
Inventory turnover	1.94	1.86	2.07	2.08
Other ratios[2]				
Current ratio	1.8	1.5	1.9	1.8
Net gearing ratio	96.1%	61.7%	43.3%	207.2%
Return on equity	-12.4%	-17.6%	0.2%	-4.8%
Return on assets	-4.5%	-7.6%	0.1%	-1.3%

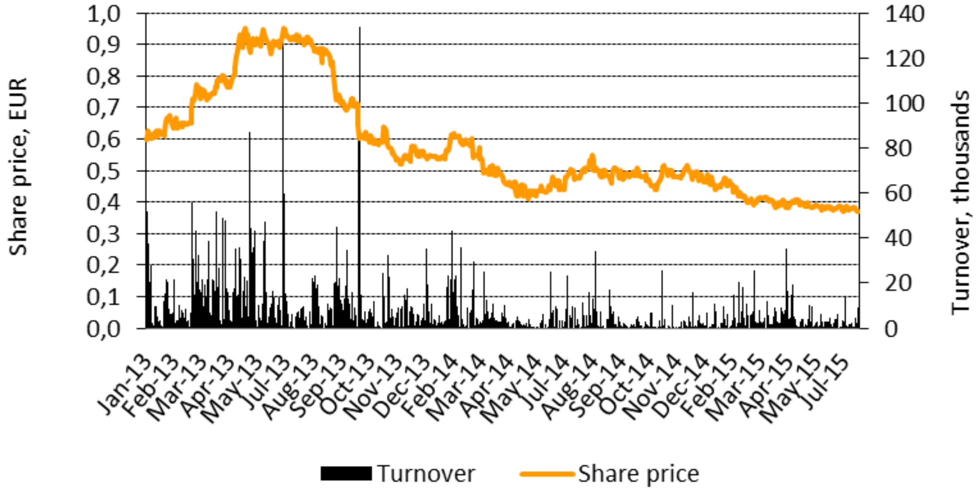
[1]In connection with Baltika's exit from the Ukrainian retail business last year, the sales activity key figures of 2014 presents only results of continued operations.
[2]Other ratios include impact of continued and discontinued operations.

Definitions of key ratios
EBITDA = Operating profit-amortisation and depreciation-loss from writing off fixed assets
EBITDA margin= EBITDA/Revenue
Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue

Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Inventory turnover = Cost of goods sold/Average inventories*
Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity
Return on equity (ROE) = Net profit (attributable to parent)/Average equity*
Return on assets (ROA) = Net profit (attributable to parent)/Average total assets*

*Based on 12-month average

SHARE PRICE AND TURNOVER



MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

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

Meelis Milder
Chairman of the Management Board
30 July 2015

Maire Milder
Member of the Management Board
30 July 2015

Kati Kusmin
Member of the Management Board
30 July 2015

INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the second quarter and six months of 2015 as presented on pages 13-34.

The Management Board confirms that:

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

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

3. the Group is going concern.

Meelis Milder
Chairman of the Management Board
30 July 2015

Maire Milder
Member of the Management Board
30 July 2015

Kati Kusmin
Member of the Management Board
30 July 2015

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2015	31 Dec 2014
ASSETS			
Current assets			
Cash and cash equivalents	3	562	710
Trade and other receivables	4	2,038	1,890
Inventories	5	13,269	13,415
Total current assets		**15,869**	**16,015**
Non-current assets			
Deferred income tax asset		420	420
Other non-current assets	4	731	605
Property, plant and equipment	6	3,257	2,895
Intangible assets	7	3,229	3,180
Total non-current assets		**7,637**	**7,100**
TOTAL ASSETS		**23,506**	**23,115**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	1,937	2,692
Trade and other payables	9,10	7,032	7,019
Total current liabilities		**8,969**	**9,711**
Non-current liabilities			
Borrowings	8	6,334	4,584
Other liabilities	9	180	83
Total non-current liabilities		**6,514**	**4,667**
TOTAL LIABILITIES		**15,483**	**14,378**
EQUITY			
Share capital at par value	11	8,159	8,159
Share premium		809	809
Reserves	11	1,182	1,182
Retained earnings		1,310	2,573
Net loss for the period		-1,069	-1,263
Currency translation differences		-2,368	-2,723
TOTAL EQUITY		**8,023**	**8,737**
TOTAL LIABILITIES AND EQUITY		**23,506**	**23,115**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	Q2 2015	Q2 2014	6M 2015	6M 2014
Continuing operations					
Revenue	12,13	13,181	12,970	25,506	25,141
Cost of goods sold	14	-6,310	-5,639	-13,153	-11,893
Gross profit		**6,871**	**7,331**	**12,353**	**13,248**
Distribution costs	15	-6,034	-6,090	-11,785	-12,044
Administrative and general expenses	16	-608	-751	-1,346	-1,468
Other operating income	17	12	21	13	18
Other operating expenses	17	-52	-4	-68	-73
Operating profit (loss)		**189**	**507**	**-833**	**-319**
Finance costs	18	-122	-92	-239	-171
Profit (loss) before income tax		**67**	**415**	**-1,072**	**-490**
Income tax expense		0	-10	3	-15
Net profit (loss) from continuing operations		**67**	**405**	**-1,069**	**-505**
Net profit (loss) for the period from discontinued operations	21	0	243	0	-1,329
Net profit (loss) for the period		**67**	**648**	**-1,069**	**-1,834**
Basic earnings per share, EUR	19	0.00	0.02	-0.03	-0.04
Continuing operations		0.00	0.01	-0.03	-0.01
Discontinued operations		-	0.01	-	-0.03
Diluted earnings per share, EUR	19	0.00	0.02	-0.03	-0.04
Continuing operations		0.00	0.01	-0.03	-0.01
Discontinued operations		-	0.01	-	-0.03

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CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Q2 2015	Q2 2014	6M 2015	6M 2014
Net profit (loss) for the period	**67**	**648**	**-1,069**	**-1,834**
Other comprehensive income (loss)				
Items that subsequently might be classified to profit or loss				
Currency translation differences	-2	-221	355	-447
Total comprehensive income (loss)	**65**	**427**	**-714**	**-2,281**
Total comprehensive loss attributable to equity shareholders arises from:				
Continuing operations	65	184	-714	-952
Discontinued operations	0	243	0	-1,329

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CONSOLIDATED CASH FLOW STATEMENT

	Note	Q2 2015	Q2 2014	6M 2015	6M 2014
Operating activities					
Continuing operations:					
Operating profit (loss)		189	507	-833	-319
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	328	327	633	619
Gain (loss) from sale, impairment of PPE, non-current assets, net		9	5	15	3
Other non-monetary expenses		-43	-100	142	-354
Changes in working capital:					
Change in trade and other receivables		174	114	-384	110
Change in inventories		312	-1 646	146	-948
Change in trade and other payables		-374	1 099	16	700
Interest paid		-74	-84	-142	-161
Income tax paid		0	-19	-10	-24
Discontinued operations:		0	0	0	-180
Net cash generated from (used in) operating activities		**521**	**203**	**-417**	**-554**
Investing activities					
Continuing operations:					
Acquisition of PPE and intangibles	6, 7	-273	-324	-541	-717
Proceeds from disposal of PPE, investment property		60	1	121	3
Discontinued operations:		0	0	0	-8
Net cash used in investing activities		**-213**	**-323**	**-420**	**-722**
Financing activities					
Repayments of borrowings	8	-274	-273	-548	-547
Change in bank overdraft	8	109	417	1 262	1 507
Repayments of finance lease		-36	-9	-51	-21
Net cash generated from (used in) financing activities		**-201**	**135**	**663**	**939**
Total cash flows		**107**	**15**	**-174**	**-337**
Cash and cash equivalents at the beginning of the period	3	**450**	**458**	**710**	**852**
Effect of exchange gains on cash and cash equivalents		5	36	26	-6
Cash and cash equivalents at the end of the period	3	**562**	**509**	**562**	**509**
Change in cash and cash equivalents		**112**	**51**	**-148**	**-343**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total
Balance as at 31 Dec 2013	**8,159**	**684**	**1,182**	**2,573**	**-1,090**	**11,508**
Loss for the period	0	0	0	-1,834	0	-1,834
Other comprehensive loss	0	0	0	0	-447	-447
Total comprehensive loss	**0**	**0**	**0**	**-1,834**	**-447**	**-2,281**
Equity-settled share-based transactions (Note 16)	0	63	0	0	0	63
Balance as at 30 June 2014	**8,159**	**747**	**1,182**	**739**	**-1,537**	**9,290**
Balance as at 31 Dec 2014	**8,159**	**809**	**1,182**	**1,310**	**-2,723**	**8,737**
Loss for the period	0	0	0	-1,069	0	-1,069
Other comprehensive income	0	0	0	0	355	355
Total comprehensive loss	**0**	**0**	**0**	**-1,069**	**355**	**-714**
Balance as at 30 June 2015	**8,159**	**809**	**1,182**	**241**	**-2,368**	**8,023**

NOTES TO CONSOLIDATED INTERIM REPORT

NOTE 1 Accounting policies and methods used in the preparation of the interim report

The Baltika Group, with in the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo. In addition Baltika operates under franchise agreement British fashion brand Blue Inc stores in Baltic countries. The Group employes a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and whole-, franchise- and retail sales. AS Baltika's shares are listed on the Tallinn Stock Exchange. The largest shareholder and the only company holding above 20% of shares (Note 11) of AS Baltika is KJK Fund Sicaf-SIF (on ING Luxembourg S.A. account).

The Group's condensed consolidated interim report for the second quarter ended 30 June 2015 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2014, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2014. New and revised standards and interpretations effective from 1 January 2015 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

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

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

NOTE 2 Financial risks

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

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

Market risk

Foreign exchange risk

Sales in foreign currencies from continuing operations not pegged to euro constitute 10% (2014: 16%). The sales in retail markets were conductes in following currencies: EUR (euro) and RUB (Russian rouble). The majority of raw materials used in production are acquired from European Union, goods purchased for resale outside European Union. The major foreign currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled mainly in euros. Some of Groups revenue is influenced by fluctuation of Russian rouble, as the salesprices in the Russian market are fixed in local currency. In addition, a change in the economic environment and relative appreciation/depreciation of a local currency may greatly affect the purchasing power of customers in the market of the respective segment.

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

The Group's results are open to fluctuations in foreign currency rates. The changes in average foreign currency rates against euro in the reporting period were following:

Average currencies	**6M 2015**	**6M 2014**
RUB (Russian rouble)	-34.69%	-17.76%
USD (US dollar)	18.57%	-4.33%
GBP (British pound)	10.84%	3.47%

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

Balance-sheet date rates (30 June 2015; 31 Dec 2014)	
RUB (Russian rouble)	13.80%
USD (US dollar)	7.84%
GBP (British pound)	8.67%

Foreign exchange risk arises from cash and bank (Note 3), trade receivables (Note 4) and trade payables (Note 9).

The Group's non-current borrowings carrying floating interest rate were denominated in euros, therefore no currency risk is assumed.

No instruments were used to hedge foreign currency risks in 2015 and 2014. The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency. Additionally the Group uses the possibilities to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

Interest rate risk

As the Group's cash and cash equivalents carry fixed interest rate and the Group has no other significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. Interest rate risk is primarily caused by the potential fluctuations of Euribor or Eonia and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

All non-current borrowings as at 30 June 2015 and 31 December 2014 were subject to a floating interest rate based on Euribor, which is fixed every six months or had a fixed interest rate (Note 8). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

During the reporting period The Group has not used hedging instruments to manage the risks arising from fluctuations in interest rates.

Price risk

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

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, also from deposits under other receivables and trade receivables.

Cash and cash equivalents

For banks and financial institutions, mostly independently rated parties with a minimum rating of "A" are accepted as long-term counterparties in Baltic states. In Eastern Europe region also lower rating is considered acceptable.

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Trade receivables

For the wholesale customers' credit policy is based on next actions: monitoring credit amounts, customer's payment behaviour and other factors are taken into consideration. For some wholesale clients prepayments or payment guarantees through bank are required. For some contractual clients no collaterals to secure the trade receivables are required but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

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

At 30 June 2015 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted to 1,647 thousand euros (31 December 2014: 1,566 thousand euros) on a net basis after the allowances made previously.

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, bond issues, monitoring the terms of receivables and purchase contracts. Group´s current account/overdraft facility is in use for more flexible management of liquid assets, enabling some Group companies to use the Group's resources up to the limit established by the Parent company. The unused limit of Group´s overdraft facilities as at 30 June 2015 was 1,086 thousand euros (31 December 2014: 2,347 thousand euros).

Financial liabilities by maturity at 30 June 2015

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	4,730	1,938	2,991	4,929
Finance lease liabilities (Note 8)	517	176	381	557
Convertible bonds (Note 8)	3,024	24	3,586	3,610
Trade payables (Note 9)	4,205	4,205	0	4,205
Other financial liabilities	1	1	0	1
Total	**12,477**	**6,344**	**6,958**	**13,302**

Financial liabilities by maturity at 31 December 2014

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	4,016	2,811	1,424	4,235
Finance lease liabilities (Note 8)	236	62	192	254
Convertible bonds (Note 8)	3,024	0	3,610	3,610
Trade payables (Note 9)	3,969	3,969	0	3,969
Other financial liabilities	1	1	0	1
Total	**11,246**	**6,843**	**5,226**	**12,069**

[1] For interest bearing borrowings carrying floating interest rate based on Euribor, the last applied spot rate to loans has been used.
[2] Used overdraft facilities are shown under loans payable based on the contractual date of payment.

Operational risk

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

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

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

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

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

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

Capital risk management

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

The Group monitors capital on the basis of net gearing ratio (net debt divided by equity). Net debt is calculated as interest carrying borrowings less cash and cash equivalents.

The Group's strategy is to maintain the capital to net gearing ratio under 50%. In the end of reporting period the ratio was 96%. In the end of 2014 the ratio was 75%. The worsening of the ratio is influenced by increase in borrowings (usage of overdraft), but also by the loss earned in six months.

Net gearing ratio

	30 June 2015	**31 Dec 2014**
Interest carrying borrowings (Note 8)	8,247	7,252
Cash and bank (Note 3)	-562	-710
Net debt	7,685	6,542
Total equity	8,023	8,737
Net gearing ratio	**96%**	**75%**

Fair value

The Group estimates that the fair values of the assets and liabilities measured in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 30 June 2015 and 31 December 2014.

The carrying amount less an impairment provision of trade receivables and payables is estimated by management to approximate their fair values as trade receivables and payables are mostly short-term.

As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. The Group's risk margins have not changed considerably and are reflecting the market conditions. Regarding to the Group´s long-term borrowings that have a fixed interest rate, the interest rate does not differ from the market rate. Based on that, the Management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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NOTE 3 Cash and cash equivalents

	30 June 2015	31 Dec 2014
Cash at hand	115	86
Cash at bank and overnight deposits	447	624
Total	**562**	**710**

Cash and cash equivalents by currency

	30 June 2015	31 Dec 2014
EUR (euro)	365	429
RUB (Russian rouble)	197	84
LTL (Lithuanian lit)	0	197
Total	**562**	**710**

NOTE 4 Trade and other receivables

Short-term trade and other receivables	30 June 2015	31 Dec 2014
Trade receivables, net	1,395	1,456
Other prepaid expenses	407	401
Tax prepayments and tax reclaims, thereof	20	3
Value added tax	4	1
Prepaid income tax	11	0
Other taxes	5	2
Other current receivables	216	30
Total	**2,038**	**1,890**

Long-term assets		
Non-current lease prepayments	365	343
Other long-term receivables	366	262
Total	**731**	**605**

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

30 June 2015	Baltic region	Eastern European region	Other regions	Total
Not due	404	377	58	839
Up to 1 month past due	19	28	91	138
1-3 months past due	5	68	215	288
3-6 months past due	0	1	15	16
Over 6 months past due	0	0	114	114
Total	**428**	**474**	**493**	**1,395**

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

Trade receivables (net) in denominated currency

	30 June 2015	31 Dec 2014
EUR (euro)	1,314	1,352
RUB (Russian rouble)	81	53
LTL (Lithuanian lit)	0	51
Total	**1,395**	**1,456**

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NOTE 5 Inventories

	30 June 2015	31 Dec 2014
Fabrics and accessories	1,896	2,180
Work-in-progress	79	79
Finished goods and goods purchased for resale	10,640	10,911
Allowance for impairment of finished goods and goods purchased for resale	0	-330
Prepayments to suppliers	654	575
Total	**13,269**	**13,415**

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments, PPE not in yet in use	Total
31 December 2013					
Acquisition cost	**4,318**	**5,410**	**7,041**	**0**	**16,769**
Accumulated depreciation	-3,392	-4,685	-5,669	0	-13,746
Net book amount	**926**	**725**	**1,372**	**0**	**3,023**
Additions	191	62	287	6	546
Disposals	-91	-16	-65	0	-172
Depreciation	-175	-149	-207	0	-531
Currency translation differences	-40	-10	-25	0	-75
30 June 2014					
Acquisition cost	**3,859**	**5,347**	**6,528**	**6**	**15,740**
Accumulated depreciation	-3,048	-4,735	-5,166	0	-12,949
Net book amount	**811**	**612**	**1,362**	**6**	**2,791**
31 December 2014					
Acquisition cost	**2,330**	**5,143**	**5,253**	**0**	**12,726**
Accumulated depreciation	-1,547	-4,535	-3,749	0	-9,831
Net book amount	**783**	**608**	**1,504**	**0**	**2,895**
Additions	383	27	434	1	845
Disposals	-6	-5	-5	0	-16
Depreciation	-141	-116	-241	0	-498
Currency translation differences	14	8	9	0	31
30 June 2015					
Acquisition cost	**2,562**	**4,923**	**5,417**	**1**	**12,903**
Accumulated depreciation	-1,529	-4,401	-3,716	0	-9,646
Net book amount	**1,033**	**522**	**1,701**	**1**	**3,257**

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NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
31 December 2013					
Acquisition cost	**2,191**	**1,243**	**0**	**2,083**	**5,517**
Accumulated depreciation	-1,575	-249	0	0	-1,824
Net book amount	**616**	**994**	**0**	**2,083**	**3,693**
Additions	4	0	175	0	179
Disposals	-1	0	0	0	-1
Amortisation	-86	-22	0	0	-108
Currency translation differences	-2	0	0	-36	-38
30 June 2014					
Acquisition cost	**2,074**	**1,243**	**175**	**2,047**	**5,539**
Accumulated depreciation	-1,543	-271	0	0	-1,814
Net book amount	**531**	**972**	**175**	**2,047**	**3,725**
31 December 2014					
Acquisition cost	**2,132**	**1,243**	**28**	**1,495**	**4,898**
Accumulated depreciation	-1,425	-293	0	0	-1,718
Net book amount	**707**	**950**	**28**	**1,495**	**3,180**
Additions	26	0	2	0	28
Amortisation	-115	-22	0	0	-137
Currency translation differences	0	0	0	158	158
30 June 2015					
Acquisition cost	**2,172**	**1,243**	**30**	**1,653**	**5,098**
Accumulated depreciation	-1,554	-315	0	0	-1,869
Net book amount	**618**	**928**	**30**	**1,653**	**3,229**

NOTE 8 Borrowings

	30 June 2015	31 Dec 2014
Current borrowings		
Current portion of non-current bank loans	762	1,809
Current bank loans	990	828
Current portion of finance lease liabilities	161	55
Share options (Note 20)	24	0
Total	**1,937**	**2,692**
Non-current borrowings		
Non-current bank loans	2,978	1,379
Non-current finance lease liabilities	356	181
Convertible bonds, share options (Note 20)	3,000	3,024
Total	**6,334**	**4,584**
Total borrowings	**8,271**	**7,276**

During the reporting period, the Group made loan repayments in the amount of 548 thousand euros (2014: 574 thousand euros). Group´s overdraft facilities with the banks were used in the amount of 2,914 thousand euros as at 30 June 2015 (31 December 2014: 1,653 thousand euros).

Interest expense of all interest carrying borrowings of the reporting period amounted to 239 thousand euros, thereof 97 thousand euros interest expense from the convertible bonds of related party (2014: 171 thousand euros, including 4 thousand euros interest expense from the loan of related party).

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Changes in 2015

In April an annex under an existing facility agreement was signed, which prolonged overdrafts´s repayment date until July 2016. The annex does not include a term about the increase and decrease according to seasonality.

Changes in 2014

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

Interest carrying loans and bonds of the Group as at 30 June 2015

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR or EONIA +4,54%	4,730
J-Bonds (Note 20)	6.50%	3,000
Total		**7,730**

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

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR or EONIA +4,43%	4,016
J-Bonds (Note 20)	6.50%	3,000
Total		**7,016**

Bank loans set certain level to financial ratios for the Group. As at 30 June 2015 Baltika, was not compatible with some of the terms and conditions of the loan agreement, but the bank has confirmed that the loan will not become due and payable prematurely.

NOTE 9 Trade and other payables

	30 June 2015	31 Dec 2014
Current liabilities		
Trade payables	4,205	3,969
Tax liabilities, thereof	1,297	1,463
Personal income tax	238	252
Social security taxes and unemployment insurance premium	555	581
Value added tax	477	578
Corporate income tax liability	0	20
Other taxes	27	32
Payables to employees[1]	1,069	1,030
Other accrued expenses	1	1
Customer prepayments	94	137
Other current payables	66	119
Total	**6,732**	**6,719**
Non-current liabilities		
Other liabilities	180	83

[1]Payables to employees consist of accrued wages, salaries and vacation reserve.
Information about the liabilities to related parties is in Note 20.

Trade payables and other accrues expenses in denominated currency

	30 June 2015	31 Dec 2014
EUR (euro)	2,567	2,885
USD (US dollar)	1,558	981
GBP (British pound)	72	37
RUB (Russian rouble)	9	5
LTL (Lithuanian lit)	0	62
Total	**4,206**	**3,970**

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NOTE 10 Provisions

Current provisions	30 June 2015	31 Dec 2014
Client bonus provision	300	300

Short description of the provision

During 2014 Baltika introduced a new loyal customer program "AndMore" that unified Baltika brand´s customer base and customer discount logic.

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

NOTE 11 Equity

Share capital and reserves

	30 June 2015	31 Dec 2014
Share capital	8,159	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182

As at 30 June 2015 and 31 December 2014, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for. As at 30 June 2015 and 31 December 2014 share capital consists of ordinary shares, that are listed on the Tallinn Stock Exchange.

Convertible bonds

	Issue date	Share subscription period	Number of convertible bonds 30 June 2015	Number of convertible bonds 31 Dec 2014
I-Bond	30 June 2012	01 July 2015 - 31 Dec 2015	2,350,000	2,350,000
J-Bond	28 July 2014	15 July 2017 - 30 July 2017	600	600

- I-bonds

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

- J-bonds

On 28 April 2014 the annual general meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 3 million euros. Decision was to issue 600 convertible bonds with the issuance price of 5,000 euros. The three-year convertible bonds carry an annual interest rate of 6.5% and give its owner the right to subscribe for 10,000 Baltika´s shares at 0.5 euros subscription price.

Bonds (510 bonds in the amount of 2,550 thousand euros) were partly issued to a related party (Note 20).

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Shareholders as at 30 June 2015

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	6,127,368	15.02%
3. BMIG OÜ*	4,750,033	11.64%
4. Skandinaviska Enskilda Banken S.A.	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,587,000	3.89%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	746,331	1.83%
Maire Milder**	316,083	0.77%
Persons related to members of Management Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	10,251,894	25.14%
Total	**40,794,850**	**100.00%**

Shareholders as at 31 December 2014

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	6,430,845	15.76%
3. BMIG OÜ*	4,750,033	11.64%
4. Skandinaviska Enskilda Banken S.A.	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,604,000	3.93%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	746,331	1.83%
Maire Milder**	316,083	0.77%
Andrew Paterson	11,000	0.03%
Persons related to members of Management Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	9,920,417	24.33%
Total	**40,794,850**	**100.00%**

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

**Data is presented with the shares that belong to the entity that is controlled by the Member Management Board.

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

NOTE 12 Segments

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

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

- Baltic region consists of operations in Estonia, Latvia and Lithuania;
- Eastern European region consists of operations in Russia.

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

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

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

The comparative figures of 2014 have been changed as information-technological tools providing information about segments are more accurate.

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

	Retail, Baltic region	Retail, Eastern Europe	Whole-sale[1]	Total
2 Q 2015				
Revenue (from external customers)	10,691	1,103	1,387	13,181
Segment profit (loss)[2]	2,109	-55	247	2,301
Incl. depreciation and amortisation	-190	-23	-19	-232
2 Q 2014				
Revenue (from external customers)	10,101	1,963	906	12,970
Segment profit[2]	2,358	84	180	2,622
Incl. depreciation and amortisation	-149	-44	-2	-195
6M 2015 and as at 30 June 2015				
Revenue (from external customers)	20,027	2,207	3,272	25,506
Segment profit (loss)[2]	2,991	-388	525	3,128
Incl. depreciation and amortisation	-356	-43	-38	-437
Inventories of segments	4,375	653	0	5,028
6M 2014 and as at 30 June 2014				
Revenue (from external customers)	19,374	3,799	1,968	25,141
Segment profit (loss)[2]	3,445	-295	434	3,584
Incl. depreciation and amortisation	-303	-97	-3	-403
Inventories of segments	4,022	1,081	0	5,103

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

Reconciliation of segment profit to consolidated operating profit (loss)

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Total segment profit	2,301	2,622	3,128	3,584
Unallocated expenses[1]:				
Costs of goods sold and distribution costs	-1,464	-1,381	-2,560	-2,380
Administrative and general expenses	-608	-751	-1,346	-1,468
Other operating income (expenses), net	-40	17	-55	-55
Operating profit (loss)	**189**	**507**	**-833**	**-319**

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

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Reconciliation of segment inventories to consolidated inventories

	30 June 2015	31 Dec 2014	30 June 2014
Total inventories of segments	5,028	5,917	5,103
Inventories in Parent company and production company	8,241	7,498	8,953
Inventories on statement of financial position	**13,269**	**13,415**	**14,056**

NOTE 13 Revenue

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Sale of goods in retail channel	11,794	12,064	22,234	23,173
Sale of goods in wholesale and e-commerce channel	1,344	870	3,212	1,896
Other sales	43	36	60	72
Total	**13,181**	**12,970**	**25,506**	**25,141**

Sales by geographical (client location) areas

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Estonia	5,386	4,755	9,994	9,245
Lithuania	2,931	2,806	5,605	5,488
Latvia	2,923	2,893	5,570	5,426
Russia	1,349	2,064	2,729	4,079
Ukraine	244	148	553	150
Spain	134	0	446	0
Finland	167	168	414	414
Belarus	16	63	122	132
Germany	13	55	22	156
Other countries	18	18	51	51
Total	**13,181**	**12,970**	**25,506**	**25,141**

NOTE 14 Cost of goods sold

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Materials and supplies	5,251	4,504	11,185	9,911
Payroll costs in production	767	820	1,700	1,686
Operating lease expenses	163	170	332	339
Other production costs	100	103	206	211
Depreciation of assets used in production (Note 6,7)	29	42	60	88
Change in allowance for inventories	0	0	-330	-342
Total	**6,310**	**5,639**	**13,153**	**11,893**

NOTE 15 Distribution costs

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Payroll costs	2,699	2,639	5,255	5,088
Operating lease expenses	1,997	2,136	3,924	4,281
Advertising expenses	364	365	662	688
Depreciation and amortisation (Note 6,7)	272	231	519	471
Fuel, heating and electricity costs	136	143	287	307
Fees for card payments	96	98	179	190
Travel expenses	34	41	103	110
Municipal services and security expenses	72	67	139	127
Consultation and management fees	57	48	109	100
Information technology expenses	38	46	76	89
Communication expenses	32	35	66	68
Other sales expenses[1]	237	241	466	525
Total	**6,034**	**6,090**	**11,785**	**12,044**

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

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NOTE 16 Administrative and general expenses

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Payroll costs	243	348	579	673
Operating lease expenses	111	102	224	220
Information technology expenses	59	50	124	120
Management, juridical-, auditor´s and other consulting fees	29	39	78	57
Bank fees	45	55	77	109
Depreciation and amortisation (Note 6,7)	27	54	54	80
Fuel, heating and electricity expenses	16	24	48	55
Sponsorship, gifts, donations	29	22	46	26
Office materials	9	9	18	20
Other administrative expenses[1]	40	48	98	108
Total	**608**	**751**	**1,346**	**1,468**

[1]Other administrative expenses consist of insurance, communication, travel, training, municipal and security expenses and other services.

NOTE 17 Other operating income and expenses

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Gain (loss) from sale, impairment of PPE and non-current assets	-8	-5	-15	-3
Other operating income	6	15	13	15
Foreign exchange gain (-loss)	-34	11	-47	-56
Fines, penalties and tax interest	0	0	0	-5
Other operating expenses	-4	-4	-6	-6
Total	**-40**	**17**	**-55**	**-55**

NOTE 18 Finance income and costs

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Interest costs from loans, capital lease	-73	-92	-142	-171
Interest costs from bonds	-49	0	-97	0
Total	**-122**	**-92**	**-239**	**-171**

NOTE 19 Earnings per share

		2 Q 2015	2 Q 2014	6M 2015	6M 2014
Weighted average number of shares (thousand)	pcs	40,795	40,795	40,795	40,795
Net profit (loss) from continuing operations		67	405	-1,069	-505
Net profit (loss) from discontinued operations		0	243	0	-1,329
Basic earnings per share	**EUR**	**0.00**	**0.02**	**-0.03**	**-0.04**
Basic earnings per share (continuing operations)	EUR	0.00	0.01	-0.03	-0.01
Basic earnings per share (discontinued operations)	EUR	-	0.01	-	-0.03
Diluted earnings per share	**EUR**	**0.00**	**0.02**	**-0.03**	**-0.04**
Diluted earnings per share (continuing operations)	EUR	0.00	0.01	-0.03	-0.01
Diluted earnings per share (discontinued operations)	EUR	-	0.01	-	-0.03

In six months in 2015 as well as 2014 the Group had no dilutive instruments. Potentially dilutive could be I- and J-bonds, dilutive effect depends on the share price and the fact if the Group earns profit.

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Diluted earnings per share		2 Q 2015	2 Q 2014
Weighted average number of shares (thousand)	pcs	40,795	40,795
Adjustments:			
- weighted average of J-bonds that are dilutive	pcs	6,000	0
Total weighted average number of shares and convertible bonds (thousand)		**46,795**	**40,795**
Net profit from continuing operations		67	405
Net profit from discontinued operations		0	243
Interest expense (convertible bonds)		97	0
Adjusted net profit attributable to equity holders of the parent		**164**	**648**
Diluted earnings per share	**EUR**	**0.00**	**0.02**
Diluted earnings per share (continuing operations)	EUR	0.00	0.01
Diluted earnings per share (discontinued operations)	EUR	0.00	0.01

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in the reporting period was 0.41 euros (2014 six months average: 0.50 euros).

NOTE 20 Related parties

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

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

- owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 11);
- members of the Management Board and the Supervisory Council[1];
- close family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Council.

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

Transactions with related parties

Purchases	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Services	72	58	234	118
Total	**72**	**58**	**234**	**118**

Sales	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Goods	1	0	4	0
Total	**1**	**0**	**4**	**0**

In 2015 as well as 2014 AS Baltika bought mostly management, communication and other services from related parties.

Balances with related parties

	30 June 2015	31 Dec 2014
Other current loans and interests (Note 8, 9)	2,719	2,639
Trade payables (Note 9)	19	31
Payables to related parties total	**2,738**	**2,670**

Information about interest from related party, see in Note 8.

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All transactions in 2015 as well as in 2014 reporting periods and balances with related parties as at 30 June 2015 and 31 December 2014 were with entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members. As at 30 June 2015 and 31 December 2014 the balances from borrowings, interests are partly with counterparty, who is also an owner that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	2 Q 2015	2 Q 2014	6M 2015	6M 2014
Salaries of the members of the Management Board	74	100	153	187
Remuneration of the members of the Supervisory Council	4	4	9	9
Total	**78**	**104**	**162**	**196**

As at 30 June 2015 there were four Management Board and five Supervisory Council members (31 December 2014: five Management Board and five Supervisory Council members).

In April the Supervisory Council recalled from the Management Board Andrew James David Paterson.

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

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

NOTE 21 Discontinued operations

Changes in 2014

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

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

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

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

An extract of the revenue and expenses of discontinued operation

	Q2 2015	Q2 2014	6M 2015	6M 2014
Discontinued operation				
Revenue	0	255	0	1,531
Expenses	0	-311	0	-1,896
Other operating expense	0	-103	0	-271
Loss before income tax	**0**	**-159**	**0**	**-636**
Loss after income tax	**0**	**-159**	**0**	**-636**
Income (-loss) from disposal of discontinued operation and impairment of assets connected to discontinued operations	0	402	0	-693
Net profit (loss) for the reporting period	**0**	**243**	**0**	**-1,329**

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Consolidated cash-flow of the discontinued operation

	6M 2015	6M 2014
Net cash used in operating activities	0	-180
Net cash used in investing activities	0	-8
Total cash flows	**0**	**-188**
Cash and cash equivalents at the beginning of the period	**0**	**213**
Effect of exchange gains on cash and cash equivalents	0	-25
Cash and cash equivalents at the end of the period	**0**	**0**
Change in cash and cash equivalents	**0**	**-213**

NOTE 22 Subsidiaries

Changes in 2015

In February 2015 a merger agreement was signed by OÜ Baltika TP and OÜ Baltika Retail, according to which OÜ Baltika Retail was the acquiring company and OÜ Baltika TP the company being merged

OÜ Baltika TP was deleted from the Commercial Registry on 14 May 2015.

The merger was within the Group and therefore there were no changes to the Baltika Group assets, rights and obligations amount, content and nature. The merger did not have economic effect on the other subsidiaries of the Group.

Changes in 2014

In 2014 the Group sold its subsidiary „Baltika Retail Ukraina Ltd“, see detailed information in Note 21.

AS BALTIKA SUPERVISORY COUNCIL

JAAKKO SAKARI MIKAEL SALMELIN
Member of the Supervisory Council since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 30 June 2015: 0

TIINA MÕIS
Member of the Supervisory Council since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Council of AS Nordecon International,
Member of the Supervisory Councils of AS LHV Pank and AS LHV Group,
Member of the Board of Estonian Chamber of Commerce and Industry,
Member of Estonian Accounting Standards Board.
Baltika shares held on 30 June 2015: 977,837 shares (on AS Genteel account)

REET SAKS
Member of the Supervisory Council since 25.03.1997
Attorney at Raidla Ellex Law Office
Degree in Law, University of Tartu
Other assignments:
Member of the Management Board of MTÜ International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group.
Baltika shares held on 30 June 2015: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Board of KJK Invest Oy,
Member of the Board of Aurejärvi Varainhoito Oy,
Member of the Board of UAB Malsena Plius,
Member of the Board of Bostads AB Blåklinten Oy,
Member of the Supervisory Council of Salva Kindlustuse AS,
Member of the Supervisory Council of AS Premia Foods,
Member of the Supervisory Council of AS Premia Tallinna Külmhoone AS,
Member of the Supervisory Council of Managetrade OÜ,
Member of the Supervisory Council of Toode AS,
Vice-chairman of the Board of AAS BAN,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Management Board of KJK Fund II SICAV-SIF,
Chairman of the Supervisory Council of JSC Rigas Dzirnavnieks,
Chairman of the Board of Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 30 June 2015: 24 590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Council since 20.04.2012
Chairman of the Board of AS EMT
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Chairman of the Board of AS Eesti Telekom
Baltika shares held on 30 June 2015: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 30 June 2015: 746,331 shares[1]

MAIGI PÄRNIK-PERNIK
Member of the Management Board, (suspended from Chief Financial Officer responsibilities during maternity leave)
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika shares 30 June 2015: 0

MAIRE MILDER
Member of the Management Board, Branding and Retail Developing Director
Member of the Board since 2000, in the Group since 1999
Degree in Biology and Geography, University of Tartu
Baltika shares held on 30 June 2015: 316,083 shares (thereof 30,000 shares on Maisan OÜ account)[1]

KATI KUSMIN
Member of the Management Board, Sales and Marketing Director
Member of the Board since 2012, in the Group since 2012
Degree in Economics, Tallinn University of Technology
Baltika shares 30 June 2015: 0

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