



Baltika Group
FASHION SINCE 1928



ANDMORE
FASHIONSTORE

montan
MOSAIC
IvoNikkolo
BASTION
BALTMAN

AS BALTIKA
ANNUAL REPORT
2015



Baltika Group

AS BALTIKA

2015 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
Fax	+372 630 2814
E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2015 - 31.12.2015

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BALTIKA GROUP IN BRIEF

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. Baltika uses a vertically integrated business model that combines collection design, manufacturing, supply chain management, logistics, wholesale and retailing. As at 31 December 2015 Group had 133 stores, among which 28 franchise partners' stores in Spain, Ukraine, Belarus and Russia and 10 stores in Russia, which belong to discontinued operations. Baltika's shares are listed on the Nasdaq Tallinn Stock Exchange that is part of the exchange company NASDAQ.

MISSION AND KEY STRATEGIC STRENGTHS

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

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

KEY FIGURES AND RATIOS

	2015 ¹	2014 ²	2014	2013	2012	2011
Profit or loss, in millions						
Revenue	48.8	47.9	57.1	58.3	56.3	53.4
Gross profit	23.1	24.0	28.9	31.2	30.7	28.4
EBITDA	0.9	2.1	0.6	2.3	3.7	-1.4
Operating profit	-0.3	0.9	-0.7	0.7	2.0	-4.5
Profit before income tax	-0.8	0.4	-1.1	0.3	1.1	-5.8
Net profit	-0.8	0.3	-1.3	0.1	0.8	-5.9
Other data						
Number of stores in retail	95	90	105	124	113	115
Number of stores total	123	113	128	126	113	115
Retail sales area in the end of period, sqm	17,046	16,559	20,232	23,852	22,210	23,111
Number of employees (31 Dec)	1,095	1,114	1,228	1,345	1,288	1,363
Sales activity key figures						
Revenue growth	2.0%	11.5%	-2.1%	3.6%	5.5%	2.3%
Retail sales growth	1.3%	7.7%	-5.8%	3.6%	5.2%	5.2%
Share of retail sales in revenue	87.6%	88.1%	90.0%	93.6%	93.5%	93.8%
Share of exports in revenue	56.6%	58.5%	65.2%	66.5%	68.0%	69.8%
Gross margin	47.3%	50.2%	50.8%	53.5%	54.5%	53.1%
Operating margin	-0.6%	1.8%	-1.2%	1.1%	3.5%	-8.3%
EBT margin	-1.6%	0.9%	-2.0%	0.5%	1.9%	-10.8%
Net margin	-1.7%	0.6%	-2.2%	0.2%	1.4%	-11.0%
Inventory turnover	2.16	1.94	2.09	2.09	2.37	2.13
Financial position data, in millions³						
Total assets	18.1	23.1	23.1	24.3	23.5	34.8
Interest-carrying liabilities	6.3	7.3	7.3	5.3	6.3	18.3
Shareholders' equity	4.8	8.7	8.7	11.5	10.2	9.6
Current ratio	1.3	1.6	1.6	1.5	1.8	1.3
Debt to equity ratio	131.5%	83.0%	83.0%	46.1%	61.6%	190.3%
Net gearing ratio	123.2%	74.9%	74.9%	38.7%	41.2%	181.3%

ROE	-92.8%	-13.4%	-13.4%	1.0%	8.9%	-54.8%
ROA	-28.1%	-5.4%	-5.4%	0.4%	2.8%	-15.1%

	2015 ¹	2014 ²	2014	2013	2012	2011
Key share data, EUR³						
Number of shares outstanding (31 Dec)	40,794,850	40,794,850	40,794,850	40,794,850	35,794,850	35,794,850
Weighted average number of shares	40,794,850	40,794,850	40,794,850	38,644,165	35,794,850	31,629,918
Share price (31 Dec)	0.34	0.46	0.46	0.55	0.57	0.30
Market capitalisation, in millions (31 Dec)	14.0	18.8	18.8	22.3	20.5	10.7
Earnings per share (EPS)	-0.16	-0.03	-0.03	0.00	0.02	-0.19
Diluted earnings per share (DPS)	-0.16	-0.03	-0.03	0.00	0.02	-0.19
Change in EPS, %	433%	-1,278%	-1,278%	-87%	111%	32%
P/E	-2.19	-14.9	-14.9	208.2	28.7	Neg.
Book value per share	0.12	0.21	0.21	0.28	0.28	0.27
P/B	2.9	2.2	2.2	1.9	2.1	1.1
Dividend per preference share	0	0	0	0	0	0
Interest rate	0%	0%	0%	0%	0%	10%**
Preference share dividend payout ratio	0%	0%	0%	0%	0%	Neg.
Dividend per share	0*	0	0	0	0	0
Dividend yield	0%*	0%	0%	0%	0%	0%
Dividend payout ratio	0%*	0%	0%	0%	0%	0%

*Proposal to the general meeting.

**Preference share dividend per annum

¹In connection with Baltika's exit from the Russian retail business, the comprehensive income data, other data and sales activity key figures for 2015 are presenting only results of continued operations.

²In connection with Baltika's exit from the Ukrainian retail business in 2014 and from Russian retail business in 2015, the comprehensive income data, other data and sales activity key figures for 2014 are presenting only results of continued operations.

³Financial position data and key share data includes impact of continued and discontinued operations. Any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Definitions of key figures and ratios

EBITDA= Operating profit-depreciation and amortisation - disposal of fixed assets

Gross margin = (Revenue-Cost of goods sold)/Revenue

Operating margin = Operating profit/Revenue

EBT margin = Profit before income tax/Revenue

Net margin = Net profit (attributable to parent)/Revenue

Inventory turnover = Cost of goods sold/Average inventories⁴

Current ratio = Current assets/Current liabilities

Debt to equity ratio = Interest-carrying liabilities/Equity

Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity

Return on equity = Net profit (attributable to parent)/Average equity⁴

Return on assets = Net profit (attributable to parent)/Average total assets⁴

Market capitalisation = Share price (31 Dec) x Number of shares outstanding (31 Dec)

EPS = Net profit (attributable to parent)/Weighted average number of shares

DPS = Diluted net profit (attributable to parent)/Weighted average number of shares

P/E = Share price (31 Dec)/EPS

Book value per share = Equity/Number of shares outstanding (31 Dec)

P/B = Share price (31 Dec)/Book value per share

Dividend yield = Dividends per share/Share price (31 Dec)

Dividend payout ratio = Paid out dividends/Net profit (attributable to parent)

⁴Based on 12-month average

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 5 to 37 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.



Meelis Milder
Chairman of the Management Board
23 March 2016



Maigi Pärnik-Pernik
Member of the Management Board
23 March 2016

MANAGEMENT REPORT

Baltika Group's net loss with discontinued operations for year 2015 was 6.4 million euros, which includes loss in amount of 4.6 million euros from allowance for assets connected to sale of Russian subsidiaries. Net loss of the continued operations was 0.8 million euros (2014: net profit 0.3 million euros).

In connection with Baltika Group's exit from the Russian retail business, which represented a major line of business of the Group, the 2015 results of the Russian entity's retail results are presented as discontinued operation. To allow better assessment of the performance of continuing operations the results of the discontinued operation are reported separately from continuing operations unless indicated otherwise. For comparability, the figures for 2014 have been adjusted accordingly.

Revenue from continued operations increased 2% compared to previous year. In 2015 largest growth of sales volume was shown by e-com with 102%, which revenue for year 2015 totalled 1.0 million euros (2014: 0.5 million euros). With this part of 2015 objective – to develop other channels (wholesale and franchise, e-commerce) and to increase their sales growth – was met. From other channels wholesale and franchise was unable to meet an objective as wholesale and franchise sales decreased by 2% compared to previous year.





In 2015 retail sales from continued operations totalled 42.7 million euros, which is 1% more than in previous year. At the same time in year total gross profit margin was under previous year level. Gross margin was impacted by problems with purchasing prices on first three quarters and the need to decrease stock, which due to decrease on Eastern markets' (Russia, Belarus and Ukraine) wholesale partners' orders was on a high level during first half-year, this in a turn was one of the reasons for higher mark-down.

Focus was on Russian market's risks management throughout 2015, followed by store portfolio optimisation. As at 31 December 2015 there were 10 retail shops in Russia (31 December 2014: 15). In year total Russian retail business resulted in net loss of 0.9 million euros. To manage further risks on Russian market Baltika decided to end operating Russian retail market and to sell Russian subsidiaries to a partner with whom a five-year franchise agreement was signed at the same time to continue selling Baltika's brands and operating stores in Russian market.

In connection with preparations for sale of Russian companies Baltika revalued all the Russian market assets down in the end of year 2015. At the end of year 2015 Baltika made in total 4.6 million euros non-cash write-offs recorded in profit and loss statement and non-cash profit in other comprehensive income was 2.9 million euros. Due to above-mentioned transactions Baltika's total assets and equity decreased in the amount of 1.7 million euros.

Restructure of Baltika's Russian retail market operations i.e. ending retail operations and continuing operations with franchise partners, allows to focus more on profitable Baltic markets and developing other sales channels (wholesale, franchise and e-com).

HIGHLIGHTS OF THE PERIOD UNTIL THE RELEASE OF ANNUAL REPORT

-  Nasdaq Baltic Market exchanges awarded in January those with best investors' relations and Baltika received the nomination in two categories – 5th place in the Best Investors Relations in the Baltic Market and 2-3rd place in The Best Annual Report and Corporate Governance Report.
-  On 30 January 2015 the Supervisory Council of AS Baltika suspended Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave. The Management Board member responsible for the finance function during the leave of Maigi Pärnik -Pernik is Meelis Milder.
-  On 20 February 2015, OÜ Baltika TP and OÜ Baltika Retail executed a merger agreement according to which OÜ Baltika Retail is the acquiring company and OÜ Baltika TP the company being merged.
-  Supervisory Council of AS Baltika decided to recall from the Management Board starting from 14 April 2015 Management Board member Andrew James David Paterson.

- ✎ 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. The meeting approved the share option plan proposed by Supervisory Council. The share capital of AS Baltika will be increased conditionally in amount of 1 million registered shares with the nominal value of 0.20 euros and with the issuance price of 0.20 euros per each share. The conditional increase of share capital is for the option scheme for Management Board members, each share option grants its owner the right to acquire 1 (one) share of AS Baltika. The subscription of the shares takes place within two years after the lapse of a period of three years from the execution of the option agreement with the eligible persons of the share option program.
- ✎ On 29 April 2015 Baltika e-store andmorefashion.com was elected to be the winner of “E-tegu” (“E-com achievement”) 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.
- ✎ On 6 August 2015 e-store Andmorefashion.com that covers all brands celebrated first year of operations.
- ✎ At 8 September 2015 meeting the Supervisory Council of AS Baltika decided to extend the contracts of the Chairman of the Management Board Meelis Milder and member of the Management Board Kati Kusmin for another 3-year term. The Management Board will continue with three members: Meelis Milder, Kati Kusmin and Maigi Pärnik-Pernik. Maire Milder will continue among Group executives on current position as director of Branding and Retail Development.
- ✎ From 2 November 2015 Tiina Varamäe started working as an Estonian retail market Director and Member of the Board in OÜ Baltman, Tiina has a long work experience in Baltika Group in years 2004-2012 as a Head of Retail Operations Manager and as an Estonian Market Director.
- ✎ As at 31 December 2015 there were 95 shops in Baltika’s retail store portfolio. During the year number of stores in retail network of continued operations increased by five.
- ✎ From 1 February 2016 Maigi Pärnik-Pernik continues working as a member of AS Baltika Management Board and is responsible for the finance functions and for the disclosure of information on the exchange.
- ✎ On 22 February 2016 Baltika signed an agreement with OÜ Ellipse Group to sell 100% of shares of Russia’s retail operating company OOO Olivia that owns subsidiaries OOO Stelsing and OOO Plazma. OÜ Ellipse Group will continue to cooperate with Baltika as franchise partner and on 22 February cooperation agreement was signed for the next five years. The price received for the Russian entities is 0.4 million euros and payment schedule is agreed for 5 years, depending on Russian entities financial results.
- ✎ In 2016 Baltika Group will end representing Blue Inc. London brand in Baltics states under the franchise agreement due to low sales efficiency and will close four stores in Estonia and in Latvia during the first quarter of the year. As a replacement in Tallinn Ülemiste shopping centre Baltman store will be opened and in Riga Origo shopping centre Bastion store will be opened.
- ✎ Supervisory Council of AS Baltika decided to recall from the Management Board starting from 17 March 2016 Management Board member Kati Kusmin.

MEETING THE OBJECTIVES OF 2015

- ✎ To increase retail sales and profit on the Baltic market

In Baltics sales increased 1% compared to previous year. At the same time sales efficiency decreased by 2%. Due to problems with a purchasing price in first three quarters and

problems with mark-down, the gross profit margin decreased as well compared to previous year, which with increased markets costs didn't meet the efficiency growth objective.

- ☒ To develop other channels (wholesale and franchise, e-commerce) and to increase their sales growth

From other channels e-commerce met 2015 objective. E-com revenue increased by 102% in a year, i.e. doubled, and was 1 million euros.

Wholesale and franchise didn't meet the objective to increase sales mainly due to the difficult economic situation in Eastern partner's markets, unstable currency exchange rate and consumers low purchasing power. Wholesale and franchise revenue decreased 2% in a year.

- ☒ To manage Russian market risks and to optimise store portfolio in Russia

Baltika decreased Russian store portfolio by 33% in a year, at the end of 2014 there were 15 stores and at the end of 2015 there were 10 stores remaining. 2 more stores were closed at the beginning of 2016 according to the plan. With this, optimisation of the store portfolio was finished and this in a turn gave a chance to manage risks even more by ending retail business on Russian market and to continue business through franchise partner.

- ☒ To increase operational efficiency, to improve distribution costs and sales ratio

Continuing operations distribution costs increased by 0.9 million euros i.e. 5% in a year. As revenue at the same time increased only by 2%, in total distribution costs and sales ratio deteriorated by 1 percentage point.

REVENUE

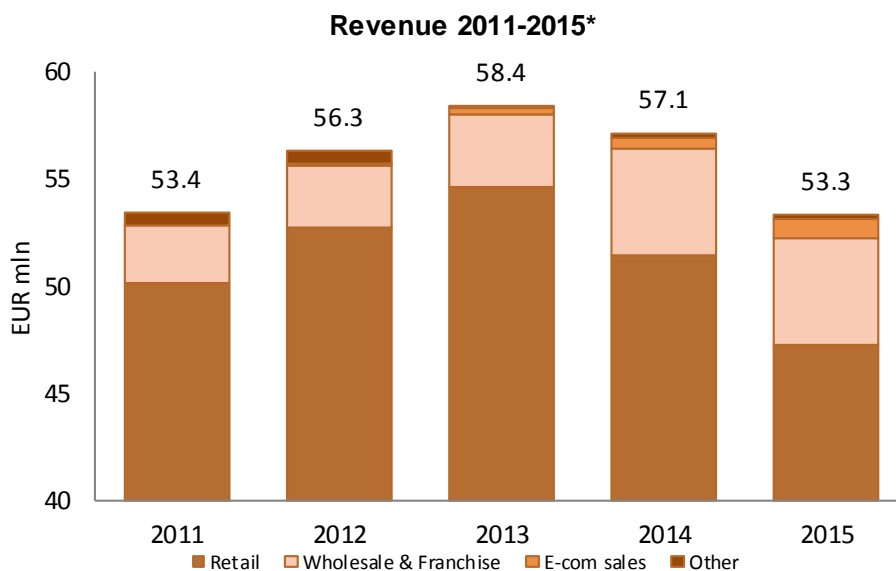
Continued operations

EUR million	2015	2014	+/-
Retail	42.7	42.2	1%
Wholesale & Franchise	5.0	5.1	-2%
E-com sales	1.0	0.5	102%
Other	0.1	0.2	-25%
Total	48.8	47.9	2%

Revenue including discontinued operations

EUR million	2015	2014	+/-
Retail	47.2	51.4	-8%
Wholesale & Franchise	5.0	5.1	-2%
E-com sales	1.0	0.5	102%
Other	0.1	0.2	-25%
Total	53.3	57.1	-7%

¹Retail revenue includes results from discontinued operations. 2015 and 2014 retail revenue includes Russian market retail sales from full period and 2014 retail revenue also includes Ukrainian market sales from first four months.



*Revenue total discontinued and continued operations

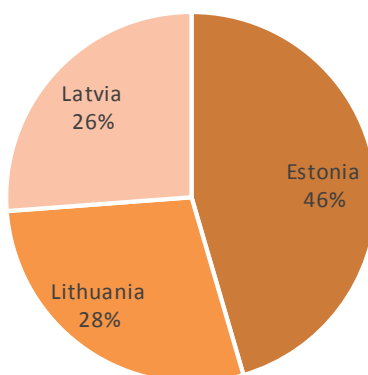
Retail

In 2015 retail revenue from continued operations increased 1% i.e. 0.5 million euros compared to previous year. Estonia presented the highest sales volume growth with 5%. In other markets sales decreased.

Retail sales by markets

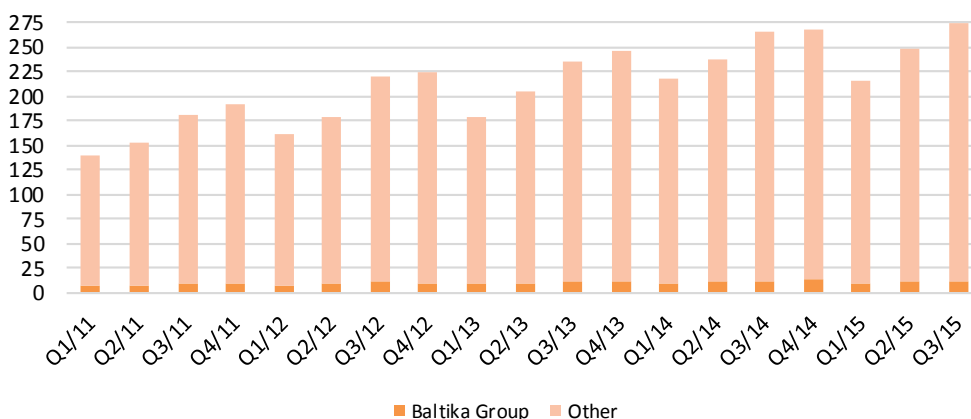
EUR million	2015	2014	+/-
Estonia	19.4	18.5	5%
Lithuania	12.1	12.3	-1%
Latvia	11.2	11.4	-2%
Total	42.7	42.2	1%
Russia	4.5	7.7	-42%
Ukraine	0.0	1.5	-100%

Breakdown of retail sales by market – 2015



Baltika Group's biggest retail market continues to be Estonia. In a year the share of Estonian market has increased by 1.7 percentage points, from 43.8% to 45.5%.

Baltics Specialised Store Retail Sales, EURm



Source: LHV, Statistics Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania

Sales were strongly impacted from unusually warmer weather in the second half-year, thus autumn and winter collections demand periods were postponed. If Lithuanian market was able to show increase in sales efficiency during the first half of the year, then in second half Lithuanian market's sales efficiency decreased as well compared to previous year.

Sales efficiency by market

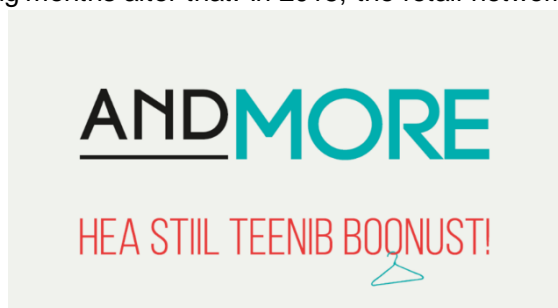
EUR/m ²	2015	2014	+/-
Estonia	226	232	-3%
Lithuania	180	182	-1%
Latvia	234	241	-3%
Total	213	217	-2%

Sales efficiency trends by market

	Q1	Q2	Q3	Q4	2015
Estonia	-1%	-1%	-5%	-4%	-3%
Lithuania	1%	4%	-4%	-3%	-1%
Latvia	-1%	0%	-8%	-2%	-3%
Total	0%	1%	-5%	-3%	-2%

AndMore bonus programme for loyal customers

In 2014 Baltika launched the new AndMore loyal customer bonus programme in the Estonian retail network and also in Lithuania and Latvia in the following months after that. In 2015, the retail network loyal customer programme was also linked with the e-channel. By today, almost 390 thousand customers from the three countries have joined the bonus programme; over 160 thousand of them joined in 2015. The programme covers all Baltika's retail network stores and the andmorefashion.com e-store. The customers have adopted the programme well, and have positively highlighted the option that they can earn as well as use bonuses across all Baltika stores independent of the brand.



With the AndMore bonus programme, the customer earns 5-10% bonus based on their purchase level, and can use this bonus in the following purchases as a discount. In addition, on their birthday, customers can use a one-time purchasing bonus in the amount of 5-10 euros.

In 2015 the loyal customers' sales volume formed 81% of Baltika's Baltics retail sales. In total loyal customers made more than 806 thousand purchases.

STORES AND SALES AREA

At the end of 2015 Baltika Group had 133 stores in seven countries with total sales area of 24,371 m², among which 28 franchise stores and 10 stores in Russia, which belong to discontinued operations. Retail network average operating area increased by 3%. The largest change was in Estonia – average operating area increased by 8%. In the second quarter new store was opened in Viljandi Centrum shopping centre: Monton and Mosaic multibrand store with special new e-ordering system, which makes customers' options wider.

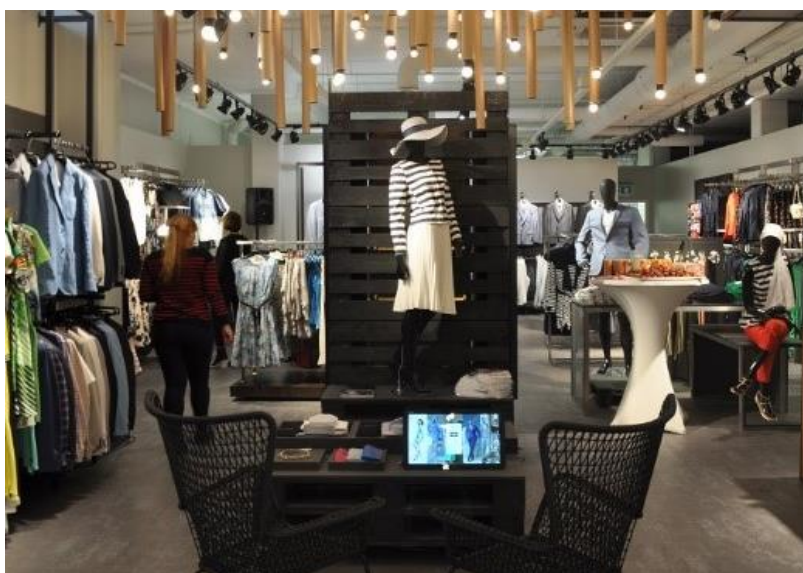
Stores by market

	31 Dec 2015	31 Dec 2014	+/-
Estonia	44	40	4
Lithuania	29	28	1
Latvia	22	22	0
Russia ¹	10	15	-5
Ukraine ²	15	14	1
Belarus ³	2	2	0
Spain ³	6	3	3
Russia ³	5	4	1
Total stores	133	128	5
Total sales area, sqm	24,371	24,077	294

¹Russian retail is part of the discontinued operations. Russian retail stores will continue operating as franchise stores.

²In comparative figures Ukrainian retail is part of the discontinued operations. Operating franchise shops in Ukraine are with total sales area of 2,746 m².

³Franchise shops in Belarus, Spain and Russia are with total sales area 1,742 m².



Viljandi Monton and Mosaic multibrand store with e-ordering system

Baltika's franchise stores portfolio increased by 5 stores in a year, most of the new stores were opened in Tenerife, Spain, where franchise partner Mirworld opened Baltman and Bastion stores at the beginning of the year and in addition another Monton shop in November. In connection with Baltika's exit from Russian retail business and reorganisation of retail shops into the franchise stores the share of franchise shops increase even more, forming 29% of Baltika Group's stores.

Baltika’s retail network by market and brand, 31 December 2015

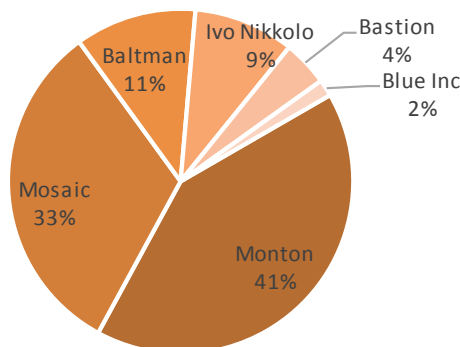
	Estonia	Lithuania	Latvia	Russia*	Total	+/- vs 2014
Monton	9	8	6	9	32	0
Mixed brands	3	3	3	0	9	0
Mosaic	12	9	4	1	26	-1
Baltman	4	6	2	0	12	0
Ivo Nikkolo	6	3	4	0	13	2
Bastion	7	0	1	0	8	0
Blue Inc.	2	0	2	0	4	0
Outlet	1	0	0	0	1	-1
Total	44	29	22	10	105	0
m2	7,390	5,716	3,940	2,837	19,883	-349

*Discontinued operations

OVERVIEW OF BRANDS

In 2015 Monton brand had the biggest share of Baltika Group’s revenue with 41%; the share of Mosaic was 33%. In 2015 Monton trademark share of Baltics retail increased by 1 percentage point. Bastion brand had the highest growth in sales volume – year total 14%. Mosaic brand with 42% has the biggest share of wholesale and franchise, in second place with a strong growth in wholesale and franchise is Monton brand, share of sales 37% and growth of 12 percentage points. E-com revenue is divided more equally among brands than in other channels. Monton has the biggest share – 33%, followed by Mosaic with 28%. In a third place is Ivo Nikkolo brand, which deserves to be recognized with a 21% share of e-com sales.

Breakdown of retail sales by brand – 2015



Revenue from continued operations

Monton

In 2015 Monton brand revenue from continued operation was 19.9 million euros, increasing 7% in a year with the support of an increase in retail as well in franchise, in total growth of 1.3 million euros. Growth in first half year was 6% and in second half-year 3% compared to previous year.

Baltika’s most youthful and most cosmopolitan brand Monton is represented in home market – Baltics: Estonia, Latvia and Lithuania and through franchise partners’ network in Russia, Ukraine, Belarus and Spain. From the end of 2015 Monton is also represented in shopping centres and in multibrand shops in Finland, Germany and Austria. In total there were 46 Monton concept stores at the end of 2015 and in addition sales areas in shopping centres and in multibrand shops.

During 2015, Monton went through a thorough internal development process and focused on its competitive advantage: high-quality, well-fitting urban wear. Monton’s youthful,



opinionated and cosmopolitan customer has adopted this change well and acknowledges the brand's playful design with surprising elements, and the suitability of the clothes to people with a dynamic lifestyle.

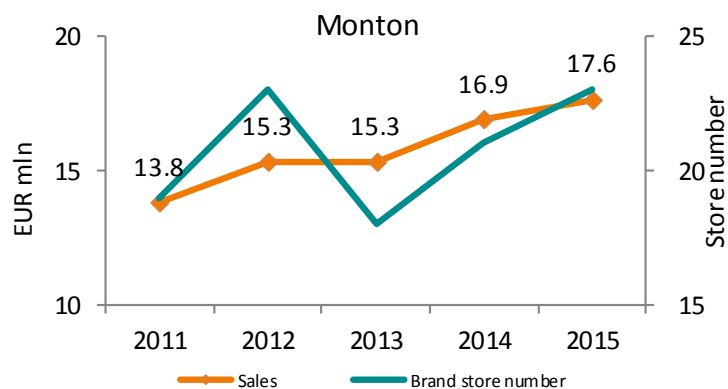
Monton is offering clothes for women and also for men. In 2015 women's clothes form a 70% of brand's retail sales. Monton women's clothing retail sales increased by 3% and men's clothing retail sales increased by 7% in a year.

Most of Monton sales, 17.6 million euros, came from retail sales, growth in 2015 4% and 0.7 million euros. In retail Monton's biggest market is Estonia.



Monton Pop-up store in Tallinn Solaris shopping centre

Monton retail sales



Revenue from continued operations

Mosaic

In 2015 Mosaic’s revenue was 16.1 million euros, decreasing 2% i.e. 0.4 million euros in a year, decreasing mainly due to decreased wholesale and franchise sales in Eastern markets during the second half-year.

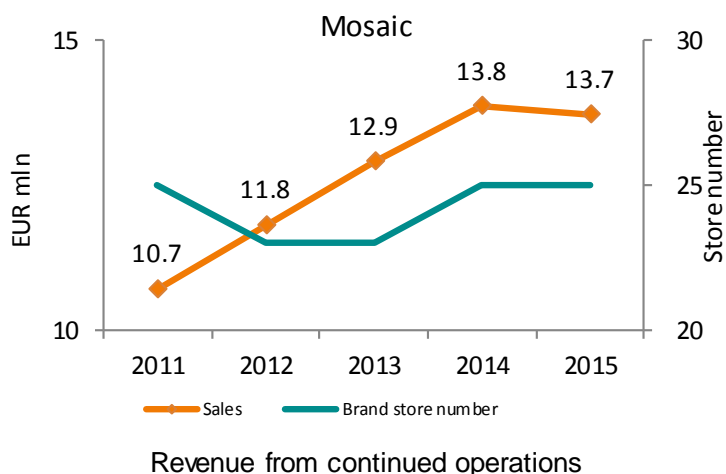
Mosaic collection is represented in 32 concept stores in Baltika’s retail network in Baltics as well as franchise stores in Ukraine, Russia, Belarus and Spain. From Baltka Group’s brands Mosaic has a largest share of wholesale and franchise partner’s networks in different markets.

The Mosaic brand is valued by customers who prefer modern classics, yet timeless design and safe choices. They particularly value the fact that the clothes fit the wearers’ figure types and the company produces well-fitting costumes, dresses and men’s suits. The collection’s products are easy to combine and it is easy to add new items to an already existing wardrobe.

Mosaic offers clothes for women and also for men. In 2015 women’s clothing made up 77% of brand’s retail sales. If in the first half-year of the 2015 Mosaic women’s collection was very successful with an increase of 6% in retail sales, then in the second half-year sales decreased as Mosaic collection’s major part’s – outerwear – sales decreased due to warm weather in autumn and winter. Due to the same reason the second half-year was difficult to men’s collection as well. Biggest market for Mosaic brand by far continues to be Estonia.



Mosaic retail sales



Baltman

In 2015 Baltman total revenue was 5.3 million euros, remaining on the last year level. Decrease in wholesale and franchise was compensated by 1% growth in retail. Positive aspect is that Baltman gross profit margin grew 3% in a year, mainly owing to better managed and lower mark-downs.

Baltman collection is represented in 14 brand concept stores, among which 12 belong to Baltika's retail network and 2 franchise stores: one in Moscow, Russia and other in Tenerife, Spain.

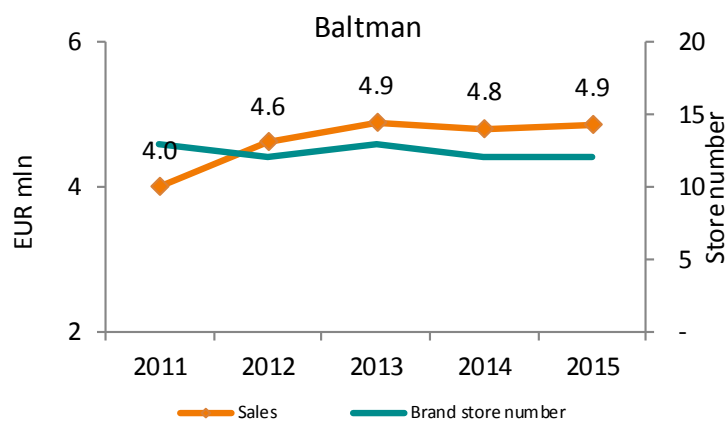
The Baltman brand offers first-class international design and exceptional quality. The products are made of fabrics from Europe's most highly esteemed fabric manufacturers, and the majority of products are sewn in Estonia, in Baltika's own production units under strict quality control and supervision. Baltman offers both classical and highly trendy designs, both characterised by stylishness and careful attention to every last detail of the garments. During the last year, the Baltman brand has attracted an increasing amount of attention among the younger target group.

During 2015, Baltman has attracted customers' attention with technological advances in fabrics and fashion design. From our product groups, blazers have shown great sales growth results. They are easy to combine and wear in a more formal situation, but also as part of an everyday set. At the same time, for the Baltman brand the largest and most important product group continues to be suits.



Baltman store in Tallinn Rocca al Mare shopping centre

Baltman retail sales



Revenue from continued operations

Ivo Nikkolo

In 2015 Ivo Nikkolo brand's revenue was 4.7 million euros, decreasing 7% in a year. Sales decreased in retail and also in wholesale and franchise. However in e-com channel Ivo Nikkolo has been very successful taking a third place in sales volumes.

Ivo Nikkolo brand is represented in 15 brand concept stores. In Baltika's retail network there are 12 Ivo Nikkolo monobrand stores and additionally 2 stores are operated by franchise partners: one in Moscow, Russia and other in Tenerife, Spain.

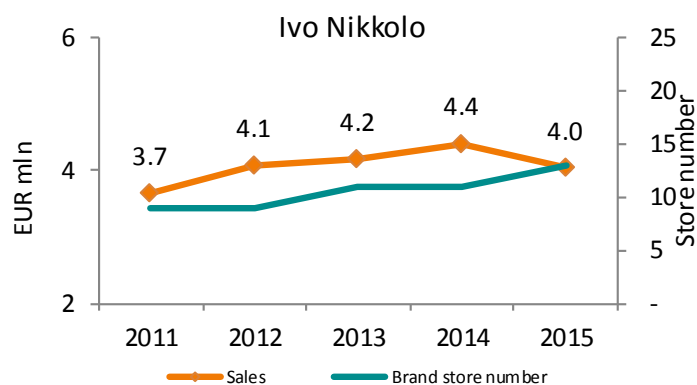
Ivo Nikkolo collection is well-known and highly regarded for its original and recognisable designer handwriting, as well as for the use of high-quality and innovative fabrics. Equally importantly, the admirers of Ivo Nikkolo brand hold the quality of garments in high regard. Ivo Nikkolo's clients are opinionated, they value original design that stands out, and features playful and sometimes surprising details.

As for Ivo Nikkolo collection's sales results, the previous year was rather complicated. In retail sales, which constitute the largest proportion of the total sales volume, the decrease was 8%. The second half of 2015 was particularly complicated, as the sales of the outerwear collection, which normally produces great results, was hindered by the warm autumn and winter weather. Of all the Baltika brands, Ivo Nikkolo's sales results were the most affected by the decrease in the number of tourists coming from the East. This decrease occurred in all three Baltic States.



The travel collection, which was launched two years ago and provides comfortable travel clothes, has won its customers' trust and showed successful growth in 2015. The accessories' segment, especially original jewellery, has received positive feedback and shows great sales results.

Ivo Nikkolo retail sales



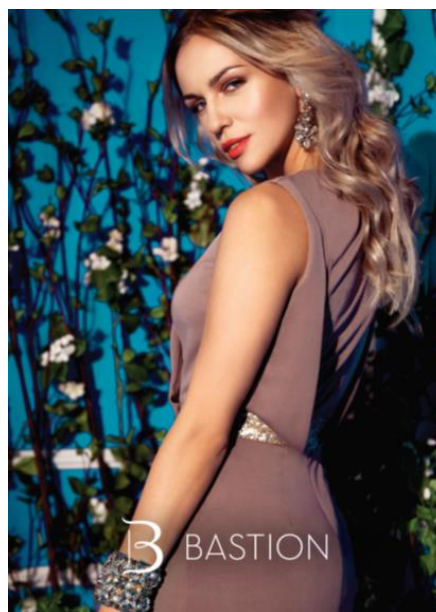
Revenue from continued operations

Bastion

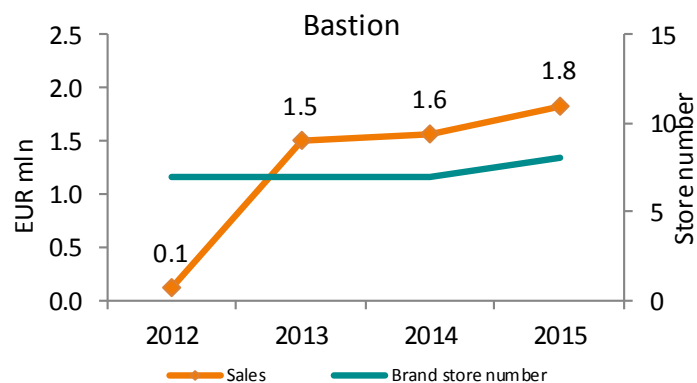
In 2015 Bastion brand total revenue reached to 2.1 million euros, being the fastest growing Baltika's brand with a growth of 14%. The gross profit margin positively grew almost as much – 13%. At the same time Bastion is the least represented and Baltika's brand with the smallest volume in Baltika's brand portfolio. At the end of 2015 there were 10 Bastion stores in total, among which 8 belong to Baltika's retail network in Estonia and Latvia and 2 franchise partners stores: in Moscow, Russia and other in Tenerife, Spain. In Baltics Bastion brand was also represented in three multibrand stores in Lithuania.

Bastion collection has had a big improvement during the year and is clearly put the focus on dresses product group. Bastion collection's improvement has been so successful that in second half-year Bastion reached to 32% growth in retail and the year total growth of 18% in retail was the highest of Baltika's brands.

The Bastion brand's design language accentuates femininity, and is achieved by using appropriate fabrics as well as impeccably fitting designs. Last year, the special spring collection presented together with the magazine Anne & Still received a lot of attention and recognition. Bastion's new store concept, which was launched at the end of 2014 and developed further during 2015, also received positive feedback. It matches nicely with the clothes collection and creates the best possible background for presenting the products to customers.



Bastion retail sales



Revenue from continued operations

WHOLESALE AND FRANCHISE

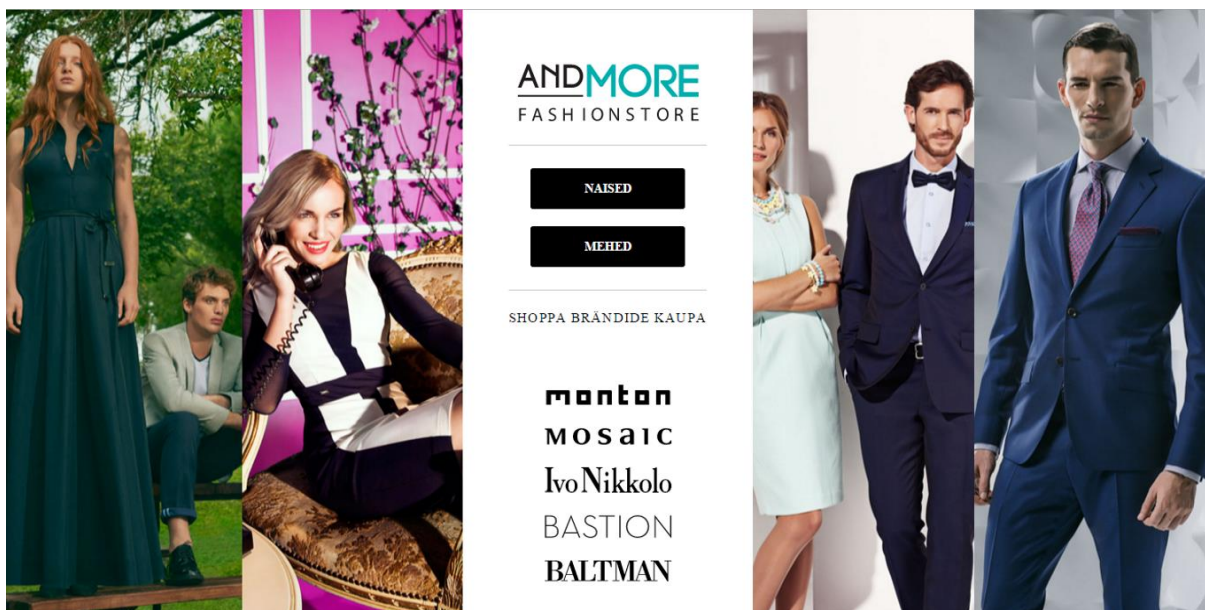
The objective for 2015 was to increase wholesale and franchise sales on existing markets and to find new partners from other countries in Europe. In January franchise partners opened one new store in Moscow, Russia and two stores in Tenerife, Spain. In Ukraine there were two new stores opened in 2015, in March Mosaic store in Odessa and in April Monton store in Dnepropetrovsk. Sales target which was set at the beginning of the year was hard to meet mainly due to the difficult economic situation in Eastern-Europe and due to the volatile rouble exchange rate. Markets connected to Russian rouble were in constant decline and the consumer's willingness and capability to purchase was low (Ukraine, Russia, Belarus formed more than 40% of wholesale and franchise revenue in 2015). With that the main goal became at the beginning of the year to keep existing clients and not to lose the share of market in CIS countries.

At the end of 2015 supplying agreement to sell Monton collection was signed with the biggest German retail stores chain – Peek&Cloppenburg. As a result of the agreement 14 German shopping centres will be entered during the year 2016. In addition an agreement regarding supplying Monton trademark to Finnish Aleksi 13 department stores was signed. In November Spanish franchise partner opened second Monton store in Tenerife.

Wholesale and franchise 2015 revenue was 5 million euros in total, which is 2% less than in previous year. Largest sales revenue in wholesale and franchise continues to come from Mosaic trademark, but in 2015 the share of Monton has increased more than 10 percentage points. The share of Mosaic in wholesale is 42% and Monton is 37%.

E-COM SALES

In 2015 the growth of e-store andmorefashion.com, that covers all five of Baltika's brands, was fast. Andmorefashion.com nominated for best e-service award in Estonia. E-store continues to support retail as it has a pre-shopping role. The bonus programme for loyal customers was successfully integrated into e-store platform, which allows joined customers to track their bonus amount. New payment and shipping methods, new destination countries and Finnish language option was added to e-store. E-store was able to supply in total 44 countries. New Click & Collect service was enabled that allows ordering goods from e-store to 10 different Baltika's shops in Tartu, Pärnu, Viljandi, Jõhvi, Narva or Tallinn.



In a year total e-store revenue was 1 million euros (growth of 102% compared to 2014), from which Monton formed 33%, Mosaic 28%, Ivo Nikkolo 21%, Bastion 15% and Baltman 3%.

Compared to 2014 andmorefashion.com growth in Estonia was 122%, in Latvia 137% and in Lithuania 285%. Sales to clients in Finland, United Kingdom and in Germany grew as well, accordingly 143%, 70% and 63%. In 2015 there were 12,500 orders made through e-store, delivered into 37 countries.

In 2015 more than 1.2 million customers visited e-store, among whom 72% were revisits.

In 2016 the plan is to increase the sale of Baltika's brands through third parties webpages. German webpage is also planned to be launched in addition to Estonian, Latvian, Lithuanian, Russian, English and Finnish webpages already available.

OPERATING EXPENSES AND NET PROFIT

Baltika's gross profit margin in 2015 was 47.3%, which is 2.9 percentage points lower than last year (2014: 50.2%). Due to problems with purchase price and high discount rate in first three quarters of the year total retail gross profit margin was 1.8 percentage points weaker compared to prior year. Other part of decrease in gross profit margin is due to decrease of wholesale, franchise and e-store gross profit margin. Gross profit for 2015 totalled 23 million euros decreasing by 0.9 million euros i.e. 4%.

In 2015, Baltika's continued operations average sales area increased by 3%, which together with cost pressure in the Baltics lead to increase in the operating expense. The total growth of distribution expense was 1 million euros and amounted to 21 million euros in 2015, which is 5% more than last year (2014: 20 million euros).

Baltika's general focus on making head-office processes more efficient signified cost saving of administrative and general expenses in the amount of 0.3 million euros. Administrative and general expenses were 2.6 million euros (2014: 2.9 million euros). Other net operating income was 0.2 million euros (2014: 0.2 million euros), which resulted in operating loss of 0.8 million euros. Operating result has decreased in a year by 1.2 million euros.

Net financial expense in year 2015 was similar to last year with 0.5 million euros. Net loss from continued operations was therefore 0.8 million euros (year 2014 net profit 0.3 million euros).

Baltika earned a net loss of 0.6 million euros in year 2015 as a result of retail operations in Russia and made in addition receivable allowance in the amount of 0.3 million euros for the receivable from assets frozen in bankrupted *ООО Судостроительный банк* in the beginning of the year. The claims have been submitted to the bankruptcy committee and Baltika will continue all required activities to reclaim at least part of the amount. Based on conservative approach Baltika has recognised allowance for the receivable and will record income only when cash is received. With the decision to discontinue Russian retail operations, Baltika Group classified all assets of the disposal group as held for sale and remeasured to nil in the end of 2015. Baltika made in total non-cash allowance expense in the amount of 4.6 million euros that is 0.9 million euros goodwill write-down, Russian net assets write-down in the amount of 0.8 million euros and currency exchange differences previously recognised in a reserve in equity were recycled to income statement in the amount of 3.0 million euros. Therefore year 2015 total loss from discontinued operations amounted to 5.5 million euros.

Together with the discontinued operations Baltika Group's yearly net loss was 6.4 million euros. With the decision to discontinue Russian retail operations the currency translation reserve in equity was recycled to statement of other comprehensive income as profit 2.7 million euros. This amounts to year 2015 total comprehensive loss of 3.6 million euros that is 0.7 million euros more than year 2014 amount of 2.9 million euros.

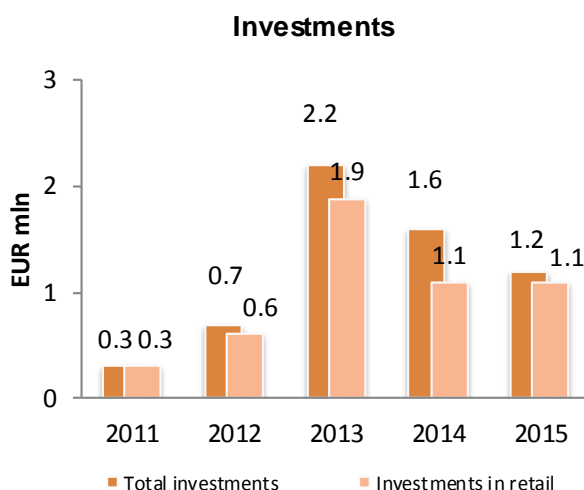
FINANCIAL POSITION

In 2015 the most important change in financial position was related to the level of inventory decrease due to focus on optimal level and efficiency. Investments into non-current assets meaning mainly into retail, were made in required amount for the current portfolio that is on the same level as depreciation. Bank loans were repaid during the year according to schedule and the borrowings decreased.

As at 31 December 2015, Baltika Group's inventories totalled 10.4 million euros, decreasing by 3.0 million euros compared to the end of the previous year. One reason for the decrease is that Russian inventories (31.12.2014: 0.5 million euros) were written down and no longer recorded on Baltika Group's balance sheet. Finished goods and goods purchased for resale have decreased 21%, which is 2.3 million euros. Fabric and accessories inventories have decreased by 0.4 million euros (18%).

As at 31 December 2015 the property, plant and equipment and intangible assets cost value was 4.8 million euros, which decreased by 1.3 million euros compared to last year-end, when it was 6.1 million

euros. The decrease of property, plant and equipment is due to Russian entities related goodwill written-off in the amount of 0.9 million euros and Russian fixed assets that have been reclassified to assets held for sale and written down. Investments into material and immaterial assets were 1.2 million euros and the continued operations depreciation and amortization is on the same level.



There were no material changes in working capital: both trade and other receivables as well as trade and other payables have decreased by 0.3 million euros, mainly due to Russian related balances reclassification. Other non-current assets is on the same level as last year and non-current other liabilities have increased by 0.2 million euros in line with accrual of J-bonds interest.

As at 31 December 2015 borrowings amounted to 6.3 million euros that is 1.0 million less compared to prior year's 7.3 million euros which is in connection with 2015 loan repayments. As at 31 December 2015 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 5.9 million euros, decrease of 0.6 million euros compared to last year-end. The net debt to equity ratio on 31 December 2015 was 123% (31.12.2014: 75%). Decrease in ratio is due to net loss of the year that has decreased owners' equity.

As at 31 December 2015 total equity attributable to equity holders of the parent was 4.8 million euros (31 December 2014: 8.7 million euros). Decrease of equity in the amount of 3.9 million euros is related mainly to one-time allowance expense made with discontinuing Russian retail operations.

CASH FLOWS

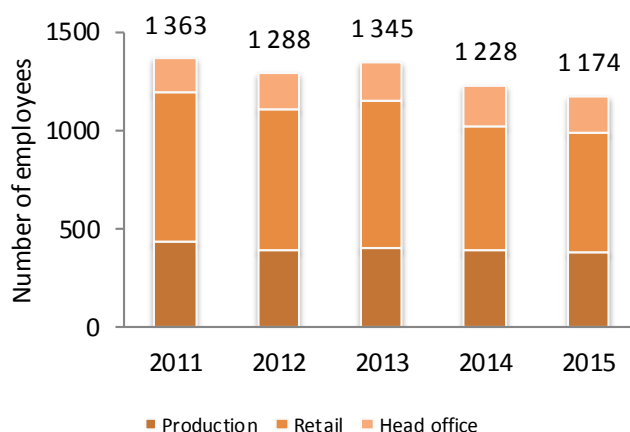
During 2015 Baltika Group's cash-flow from operating activities improved mainly due to decrease of inventory in the amount of 2.0 million euros (2014: 0.1 million euros). Cash-flow from operating activities was 2.3 million euros (2014: -0.5 million euros). Input to the investment activities was 1.2 million euros (2014: 1.4 million euros). During 2015 bank loans were repaid in the amount of 1.0 million euros. In year total cash outflow was -0.3 million euros (2014: -0.1 million euros). Cash outflow of 0.3 million euros resulted in cash balance in the amount of 0.4 million euros.

PEOPLE

As at 31 December 2015, Baltika Group employed a total of 1,174 people that is 54 people less than as at 31 December 2014 (2014: 1,228): 601 (2014: 629) in the retail system, 387 (2014: 391) in manufacturing and 186 (2013: 208) at the head office and logistics centre. The 2015 average number of staff was 1,210 (2014 with Ukrainian market retail staff: 1,257). The proportion of staff employed outside Estonia was 33%, i.e. 390 people (2014: 35%, 431). Number of employees includes Russian market (discontinued operations) retail staff - 79 people as at end of the year (31.12.2014: 114).

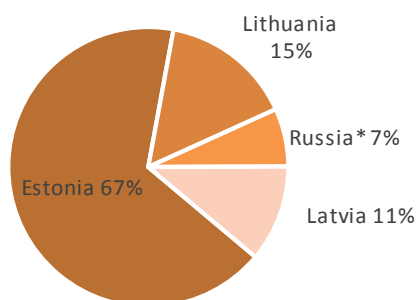
Baltika Group employees' remuneration expense in 2015 amounted to 10.8 million euros (2014: 10.5 million euros). The accrued remuneration with taxes, of the members of the Supervisory Council and Management Board totalled 0.2 million euros (2014: 0.4 million euros).

Number of employees*



*Number of employees is presented including discontinued operations

Breakdown of personnel by country at 31 December 2015



*Discontinued operations


From November 2015 Tiina Varamäe started working as an Estonian retail market Director and OÜ Baltman Member of the Management Board. She has long work experience in Baltika group: in years 2004-2012 as a Head of Retail Operations Manager and as an Estonian Market Director.

SOCIAL RESPONSIBILITY REPORT

Baltika Group acknowledges the importance of wider social responsibility in its daily operations. Through different projects Baltika Group helps to improve various socially important areas. The environmental dimension has been integrated into the Group's management structure and the Group strives to ensure that all its units operate in a way that is as much as possible environmentally sustainable.

Some examples of areas and projects related to it:

Environmental awareness:

-  Baltika's Lithuanian daughter company has been participating in the "Green Office" project since 2012. The reason for this lies in the simple principle – if you wish to change the world, you need to start with yourself. The initiative that was launched in the office building where Baltika's Lithuanian office is located, united companies and their employees in making daily environmentally-friendly decisions and reduce excessive use of resources. Among the major goals in the project are conscious reduction in energy consumption, waste sorting and re-use of different materials.



Education:

- ✘ Baltika contributes to the clothing industry and fashion education with an aim to support Estonian fashion industry and the field's sustainability and development by contributing to development of fashion industry professionals' curriculum and participating in the activities of educational institutions. The company has strong partnerships with the Estonian Academy of Arts, TTK University of Applied Sciences and Tallinn Industrial Education Centre.
- ✘ Baltika allows students to attend its in-house training courses. Baltika's professionals also share their knowledge and experience in various educational institutions. Baltika also participates every year in assessing fashion industry related bachelor thesis, Baltika employees have participated in the evaluation committees. Baltika as the largest company in fashion industry in the region is the place for traineeship for many students from various areas of fashion, with the possibility of apprenticeship during and after their studies. Many of the former trainees have become valued employees of Baltika.
- ✘ During the year 2015 Baltika had approximately 40 students on traineeships from various educational institutions. Traineeship is offered also to Group's employees who study.
- ✘ In 2015, Baltika participated in the nationwide Job Shadow Day, offering students from different Estonian schools the opportunity to follow specialists working at Baltika in their everyday work and see the company as an employer from the inside.
- ✘ All Baltika employees have an opportunity to apply for a scholarship from the company, when they are acquiring an academic or vocational degree. The purpose of the scholarship is to enable full-time employees to acquire skills and knowledge in order to build their career in the company by means of education.
- ✘ Baltika wants to ensure possibilities for development of new designers and is represented every year in the jury of one of the largest stages for young designers - ERKI fashion show. We also participate in the project Moelennuk.

Sport:

- ✘ Baltika's Latvian subsidiary encourages its employees to develop sporty habits. In the recent years, the subsidiary's employees have participated in the Nordea Riga Marathon, which is a challenging joint team effort and serves as a great example for society in general. In addition, the Latvian daughter company cooperates successfully with different sports federations, such as hockey, football and basketball federations.



Baltika Group values it's employees:

- ✘ Honours long-time employees and give them credit at company events.

- ✘ Values also time spent together outside work and organises entertaining events for employees.
- ✘ Thinks that it is important to involve employees in organising different events. A great example is start-of-the-season fashion shows, where employees organise the event and perform as models.
- ✘ Baltika supports the undertakings of its past long-time employees and organises a great get-together for them in jubilee years.



Baltika brands CSR projects

✘ Baltika brands in Latvia

SIA Baltika Latvija supports sports and culture

- ✘ Baltman keeps in focus most popular national sports in Latvia – bobsleigh, ice hockey, basketball and football. From the beginning of year 2015 Baltman clothes Latvian bobsleigh head coach Sandis Prūsis. The team surprised Latvian fans with great success at the World Championship in Winterberg, Germany. Mr. Prūsis has been the face of Baltman wearing Baltman Unique suits on special occasions.



- ✘ Baltman supports Latvian National symphony orchestra by clothing 100 musicians in tuxedos. The Latvian National Symphony Orchestra founded in year 1926 consists of more than 100 musicians, who are highly acclaimed on national and international level and represent Latvia successfully in various international competitions, performing on average 250 times a year.

- ✚ Ivo Nikkolo introduces local artists with project “Meet Art”, under which artists creations are showed in Ivo Nikkolo stores. In 2015 stores expositioned porcelain of talented Latvian artist Andris Vēzis.
- ✚ Ivo Nikkolo participated 26-31 October on 23rd Riga Fashion Week (RFW), where 16-th season collections were presented.



✚ Baltika brands in Lithuania

UAB Baltika Lietuva supports the important fields of sports on local arena – basketball and volleyball.

- ✚ Lithuanian governmental institutions competition “Baltman Cup

Although Baltman doesn`t offer men sportswear, brand is visible in the sportsgrounds. For the ninth seasons in a row, basketball teams, representing different Lithuanian governmental institutions, fight for the honour to be the winner of “Baltman Cup”.

“Baltman Cup 2015” tournament winner – team of Lithuanian Ministry of the Interior affairs, silver medal went for Fire and Rescue Department team. According to the winners “Baltman Cup” tournament is good opportunity for people, who are working in office, to vent the energy and to express emotions playing basketball with colleagues from other departments.

Championship is organized by Vilnius Basketball Association.



Photo: Baltman Cup 2015 winners. Photographer: Laimonas Ciūnys

 **Baltman dresses coaches of famous Lithuanian basketball team “Žalgiris”**

In 2015 “Baltika Lithuania” continues to sponsor famous Lithuanian basketball team Kaunas “Žalgiris”, which proved to be the strongest basketball team in Lithuania.

In 2015 “Žalgiris” became the champion of Lithuanian National League again. “Žalgiris” coaches always wear Baltman Travel suites on sport arenas, which perfectly suit intensive work, as are liquid repellent and wrinkle free and very comfortable at the same time.



Photo: Žalgiris coaches. Photographer: Andrei Motorichev

 **Monton supports beach volleyball**

Monton continues cooperation with Lithuanian Beach Volleyball Federation making Monton brand name visible in Lithuanian beaches and on International volleyball tournaments. Best Lithuanian volleyball team will also be present in year 2016 Olympic games in Rio de Janeiro.




Photo: Monika Povilaitytė



Photo: M. Povilaitytė and I. Dumbauskaitė


 **Baltika brands in Estonia**

OÜ Baltman supports sports, young and successful students as well as the cancer treatment foundation “The Gift of Life” (Kingitud Elu).

-  The joint collection of Bastion and Anne & Stiil collected money for the cancer treatment foundation.

Bastion in cooperation with the magazine Anne & Still created a joint collection, the sales proceeds of which were donated to the cancer treatment foundation “The Gift of Life“.




 Baltman supports football

Baltman has been dressing footballers from the Estonia national football team in Baltman Unique suits for several years. The cooperation began already in 2006, and Baltman’s suits travel with them in various competitions all around Europe as an example of Estonian fashion design.



Photograph: Laura Nestor

 Baltman now also contributes to basketball

In 2015, Baltman started supporting the Estonian Basketball Association. Baltman dressed all sportsmen playing in the association, as well as their coaches.



Photograph: Joosep Martinson

 Monton supports new initiatives

Monton has been supporting the Estonian student companies' competition for several years. In 2015 they had a great opportunity to support the student company named WOCH from Tartu, who competed with their wooden watches in the Pan-European student companies' competition in Berlin with student companies from 38 countries. They were awarded a special prize and were also represented at the Estonian pavilion in 2015 EXPO.



OUTLOOK AND OBJECTIVES FOR 2015

Economic environment

Based on some recovery of foreign demand the analytics are expecting stable economic growth from Baltic countries. According to economic outlooks (SEB, Swedbank) the growth is around 2-3,3%. Estonian economic growth is estimated to be lower than other Baltic countries and Lithuania the more should have higher domestic consumption than economic growth. Meanwhile, the cost level should grow very little compared to year 2015. Due to the lack of qualified labour force the prognosis of wage growth pressure on expenses continues for all Baltic markets.

The abovementioned events may have a further significant impact on the Baltika Group's future operations and financial position, the effect of which is difficult to predict. The future economic

situation and its impact on the Baltika Group's operations may differ from management's current expectations.

Baltika Group





Baltika's emphasis for year 2016 retail operations in Baltics is increasing profitability through gross profit margin improvement. Goods purchase price growth from dollar exchange rate and other cost components is under control already from last quarter of year 2015. Level of inventory is also at more optimal level that will help to alleviate the pressure to sell goods through discounts on the Baltic market.

Baltika will continue developing other sales channels. The franchise portfolio will increase in year 2016 in St. Petersburg, Kazan and Kaliningrad by 8 stores that were previously operated by Baltika Group and cooperation with existing partners will also continue. The increase of e-store sales in 2016 should be supported by the plan to start selling through third party webpages.

Baltika will continue its work towards more efficient organisation. Inventory management will remain in Baltika's focus in year 2016 and work on improvement of other head-office processes will continue to reduce head-office operating expense.

No major investments are planned for 2016, regular amounts will be invested into own retail network.

Taking into account the long-term strategy, the targets for the Management of Baltika Group for 2016 are:

-  Growth in Baltic retail market sales and increase of profitability through improvement of gross profit margin
-  Other sales channels (wholesale, franchise and e-store) development and increase in sales growth
-  Better inventory management – higher inventory turnover
-  Operating efficiency improvement – decrease of head-office expense

BALTIKA SHARE

Baltika’s share has been listed on the Nasdaq Tallinn Stock Exchange since 5 June 1997. Nasdaq Tallinn Stock Exchange is a member of the world’s largest exchange company NASDAQ. NASDAQ was established at the beginning of 2008 when NASDAQ Stock Market completed its merger with the Baltic and Nordic exchange company OMX. Stock Exchange Company delivers trading, exchange technology and public company services in 50 countries and to over 3,500 companies.

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

SHARES

AS Baltika has 40,794,850 ordinary shares. Nominal value of share is 0.2 euros per share and no changes to the nominal value per share took place in 2015.

Ordinary shares

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

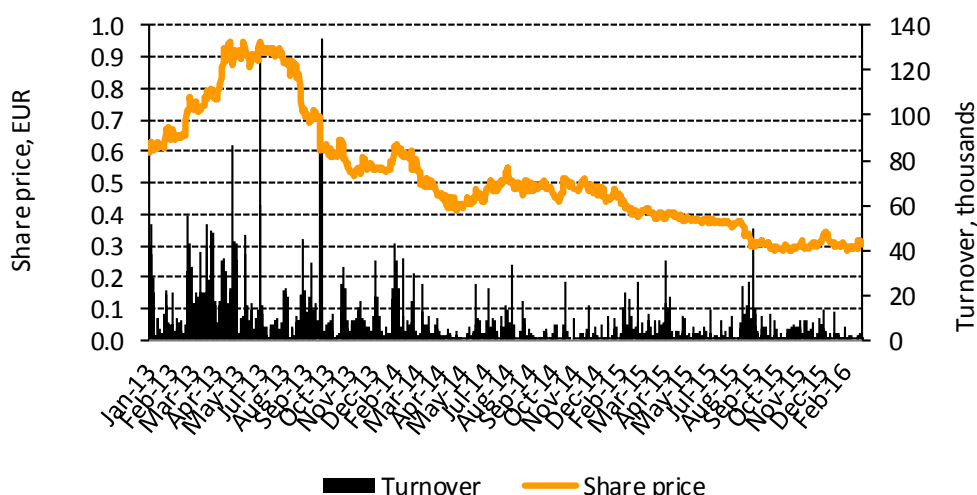
Information on listed ordinary shares

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

SHARE PRICE AND TRADING

In 2015 the price of the Baltika share decreased by 26% to 0.342 euros. The Group’s year-end market capitalisation was 14.0 million euros. During the same period, the OMX Tallinn All-Share Index increased by 19%.

Share price and turnover



Share trading history

EUR	2011	2012	2013	2014	2015
High	1.519	0.65	0.95	0.629	0.49
Low	0.295	0.28	0.52	0.41	0.29
Average	0.81	0.43	0.74	0.49	0.36
Year-end price	0.30	0.573	0.547	0.462	0.34
Change, %	-74%	91%	-5%	-16%	-26%
Traded volume	6,663,797	4,067,574	4,569,595	2,249,732	3,153,469
Turnover, in millions	5.51	1.75	3.38	1.16	1.12

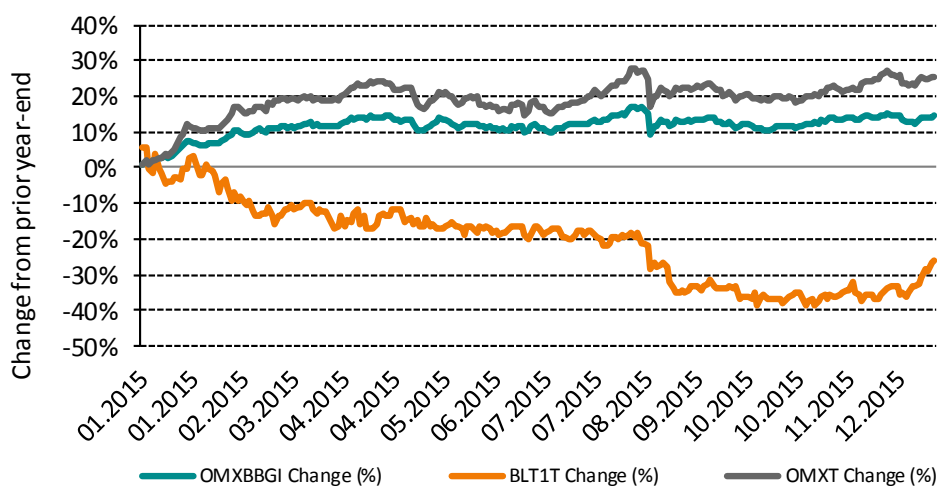
INDICES

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

As of March 2016 Baltika share was part of the following all share indexes:

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

Yearly change of Baltika share and gross indexes



SHAREHOLDER STRUCTURE

At the end of 2015, AS Baltika had 1,807 shareholders. The number of shareholders decreased over the year by 2%.

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

Largest shareholders as at 31 December 2015

	Number of shares	Holding
ING Luxembourg S.A. client	12,590,914	30.86%
Clearstream Banking Luxembourg S.A. clients	5,724,872	14.03%
BMIG OÜ	4,750,033	11.64%
Skandinaviska Enskilda Banken Abclients	3,414,700	8.37%
Svenska Handelsbanken clients	1,458,000	3.57%
Meelis Milder	1,000,000	2.45%
AS Genteel	977,837	2.40%
Luksusjaht AS	855,567	2.10%
Central Securities Depository of Lithuania	834,846	2.05%
Others	9,188,081	22.53%
Total	40,794,850	100%

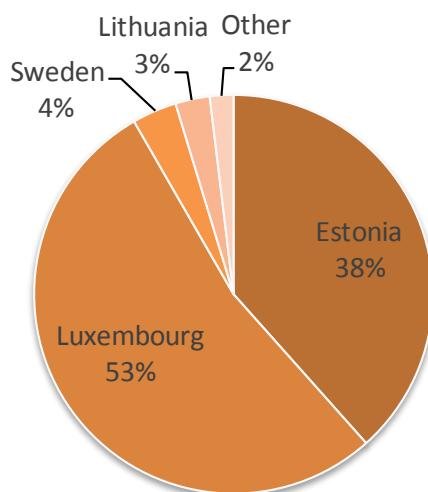
Largest shareholders are international investment funds and other legal entities who own approximately 81% of the shares. Individuals hold approximately 19% of the shares.

Shareholder structure by shareholder type as at 31 December 2015

	Number of shares	Holding
Management Board members, close family members and entities under their control	6,051,216	14.84%
Legal persons	28,431,900	69.69%
Individuals	6,311,734	15.47%
Total	40,794,850	100%

Shareholder structure by size of holding as at 31 December 2015

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	3	0.17%	23,065,819	56.54%
1,0 - 10,0%	7	0.39%	8,980,453	22.02%
0,1 - 1,0%	33	1.83%	3,730,437	9.14%
< 0,1%	1,764	97.61%	5,018,141	12.30%
Total	1,807	100%	40,794,850	100%

Shareholder structure by country at 31 December 2015


SHARE CAPITAL

As at 31 December 2015 Baltika had 40,794,850 shares with nominal value of 0.2 euros per share.

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

Changes in share capital

Date	Issue type	Issue price, EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.12.2009				22,644,850	14,473	67
21.06.2010	Issue of ordinary shares	0.77	8,850,000	31,494,850	20,129	1,131
31.12.2010				31,494,850	20,129	1,198
30.05.2011	Share nominal conversion to euros				1,918	-1,377
31.05.2011	Cancellation of preference shares		-4,000,000	27,494,850	-2,556	0
31.05.2011	Issue of ordinary shares		4,000,000	31,494,850	2,556	0
3.08.2011	Issue of ordinary shares	0.7	4,300,000	35,794,850	3,010	0
31.12.2011				35,794,850	25,057	89
11.05.2012	Decrease of share nominal value				-17,898	-89
31.12.2012				35,794,850	7,159	63
16.07.2013	Conversion of H-bonds to shares	0.3	5,000,000	40,794,850	1,000	496
31.12.2013				40,794,850	8,159	684
31.12.2014				40,794,850	8,159	809
31.12.2015				40,794,850	8,159	496

DIVIDENDS

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

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

The Group ended 2015 with a consolidated net loss of 6.4 million euros. The Management Board of Baltika proposes that this year no dividends be distributed to the holders of ordinary shares. In previous year, the company did not distribute any dividends either.

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

CORPORATE GOVERNANCE REPORT

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

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of Nasdaq Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, corporate governance report contains information on the annual general meeting taken place in year 2015, the Supervisory Council, the Management Board and explains Baltika’s governance structure and processes.

CGC Article 1.3.3.

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

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

CGC Article 2.2.1.

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

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

CGC Article 2.2.7.

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

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, Baltika discloses the total amount of remuneration expense with taxes to members of the Supervisory Council and Management Board in the management report section of its interim and annual reports. In 2015, the figure amounted to 0.2 million euros. The contractual severance benefits of members of the Management Board range from 3- to 18-fold monthly remuneration depending on the period of service.

Baltika employees are eligible to performance pay, which in case of markets is based on fulfilment of profit target of profit centres, in case of Baltika head-office employees is based on fulfilment of Baltika Group profit targets. In 2015 the maximum bonus level for the chairman of the Management Board/CEO is 2.5% of the Group’s net profit for the financial year and 1% for other members of the Management Board. From 2016 the chairman’s and members’ of the Management Board performance pay is based on fulfilment or exceeding of EBITDA target and can be 0-10 months monthly salary accordingly. The maximum amount of prepayments of annual bonuses can be 50% of the expected amount; the final amount is calculated and paid out after the financial statements have been audited. The bonus of the chairman of the Management Board/CEO is determined by the Supervisory Council. The bonuses of members of the Management Board are determined by the chairman of the Supervisory Council based on a proposal made by the chairman of the Management

Board. For the year 2015 there will not be any bonus payments to Members of the Management Board.

Members of the Management Board can receive one funded pension contribution of up to one month's salary per year, provided after they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the company's internal rules. Share option program decided on 27 April 2015 Annual General Meeting of Shareholders is issued to members of the Management Board.

CGC Article 3.2.5.

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

Annual General Meeting of shareholders decided on 27 April 2015 the emoluments of the members of the Supervisory Council. The remuneration of the chairman of the Supervisory Council amounts to 650 euros per month and the remuneration of a member of the Supervisory Council to 400 euros per month. A member of the supervisory council is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

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

In 2015 nor 2014 no conflicts of interests occurred.

CGC Article 5.6.

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

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

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

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with the Baltika's Articles of Association, the auditor(s) is (are) appointed by the general meeting of shareholders for the performance of a single audit or for a specific term. The Annual General meeting which convened on 28 April 2014, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2014-2016. Independent Auditor's Report of 2015 will be signed in accordance with the change for meeting legal rotation of signing partner requirements by Tiit Raimla. The audit firm will be chosen based on the received offer with the best quality-price ratio – AS Baltika ensures the auditor's independence by rotating the signing partner in accordance with the rules of Financial Supervision Authority.

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

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

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

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

General meeting

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

The annual general meeting of 2015 was held on 27 April at 24 Veerenni in Tallinn, Estonia. A total of 25,135,685 shares were represented i.e. 61.6% of the voting stock. In accordance with good practise the shareholders had the possibility to ask questions in addition to Management Board members also from the auditor. The meeting approved the company's annual report and profit allocation proposal for 2014, extension of the powers of the Supervisory Council and remuneration, decided on the share option program and the conditional increase of the share capital.

Supervisory Council

The Supervisory Council plans the activities of the AS Baltika, organises the management and supervises the activities of the Management Board. The Supervisory Council meets according to need but not less frequently than once every three months. A meeting of the Supervisory Council has a quorum when more than half of the members participate. A resolution of the Supervisory Council is adopted when more than half of the members of the Supervisory Council who participate in the meeting vote in favour. Each member of the Supervisory Council has one vote. There were 6 meetings of the Supervisory Council and Supervisory Council members attended most of the year 2015 meetings.

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

Annual general meeting of shareholders on 27 April 2015 elected Supervisory Council composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Council meeting on 13 May 2015 elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Council.

Jaakko Sakari Mikael Salmelin is a partner of KJK Capital Oy; he has managed various Eastern European funds focusing mainly on the Baltic and Balkan markets. Tiina Mõis is the director of the investment firm AS Genteel and a member of the councils of AS LHV Pank and AS LHV Group. Reet Saks is an attorney with Law Office Raidla Ellex, a long-term partner of Baltika. Reet Saks has been a member of Baltika's Supervisory Council since 1997. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a chairman or member of the councils of several Baltic and Finnish companies and he has long-term experience in advising potential investors on matters related to investing in the

companies of the Baltic countries. Valdo Kalm is the chairman of AS Tallinna Sadam Management Board and has from previous long-term work experience specialised knowledge in technology and telecommunications industry.

Two council members own Baltika's shares: Tiina Mõis owns 977,837 ordinary shares i.e. 2.4% of share capital through the company under her control and Lauri Kustaa Äimä 24 590 ordinary shares i.e. 0.1% as at the end of 2015.

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

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

Audit Committee

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

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

In 2015 the audit committee gathered one time. The committee met in December with the representatives of the audit firm AS PricewaterhouseCoopers to obtain overview of the observations made during 2015 audit interim work.

Management Board

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

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

Baltika's management board has two members: Chairman Meelis Milder and Maigi Pärnik-Pernik.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik the CFO.

On 30 January 2015 the Supervisory Council of AS Baltika decided to suspend Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave and appointed Meelis Milder as the Management Board member responsible for the finance function and for the disclosure of information on the exchange. From 1 February 2016 Management Board member responsible for the finance function and for the disclosure of information on the exchange is again Maigi Pärnik-Pernik.

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

At the 8 September 2015 meeting the Supervisory Council of AS Baltika decided not to extend the contract of the member of the Management Board Maire Milder. Maire Milder will continue among Group executives on current position as director of Branding and Retail Development.

Supervisory Council of AS Baltika decided to recall from the Management Board starting from 17 March 2016 Management Board member Kati Kusmin.

Management board member Meelis Milder and his close family member own Baltika's shares also through the holding company OÜ BMIG, which at the end of 2015 held 11.64% of Baltika's share capital. Latter member of the Management Board and his close family member hold 80.1% of OÜ BMIG shares. In addition, Management Board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2015 Management Board members, their close family members and entities under their control owned 14.91% of AS Baltika share capital.

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

Shareholdings of members of the Management Board at 31 December 2015

	No of shares	Holding
OÜ BMIG	4 750 033	11,64%
Meelis Milder	1 000 000	2,45%
Close family members of Management Board members	331 183	0,82%
Total OÜ BMIG and Management Board members	6 081 216	14,91%
Baltika share capital	40 794 850	100%

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2015 consolidated financial statements as presented on pages 38 to 81.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
3. the Group is going concern.



Meelis Milder
Chairman of the Management Board
23 March 2016



Maigi Pärnik-Pernik
Member of the Management Board
23 March 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2015	31 December 2014
ASSETS			
Current assets			
Cash and cash equivalents	4	398	710
Trade and other receivables	5	1,607	1,890
Inventories	6	10,424	13,415
Total current assets		12,429	16,015
Non-current assets			
Deferred income tax asset	7	234	420
Other non-current assets	8	584	605
Property, plant and equipment	9	2,910	2,895
Intangible assets	10	1,944	3,180
Total non-current assets		5,672	7,100
TOTAL ASSETS		18,101	23,115
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	12	3,009	2,692
Trade and other payables	13,14	6,709	7,019
Total current liabilities		9,718	9,711
Non-current liabilities			
Borrowings	12	3,312	4,584
Other liabilities	13	283	83
Total non-current liabilities		3,595	4,667
TOTAL LIABILITIES		13,313	14,378
EQUITY			
Share capital at par value	15	8,159	8,159
Share premium		496	809
Reserves	15	1,182	1,182
Retained earnings		1,310	2,573
Net loss for the period		-6,359	-1,263
Currency translation differences		0	-2,723
TOTAL EQUITY		4,788	8,737
TOTAL LIABILITIES AND EQUITY		18,101	23,115

The Notes presented on pages 44-81 are an integral part of these consolidated Financial Statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	2015	2014
Continuing operations			
Revenue	16,17	48,806	47,865
Client bonus reserve	17	-70	-300
Revenue after client bonus provision		48,736	47,565
Cost of goods sold	18	-25,660	-23,561
Gross profit		23,076	24,004
Distribution costs	19	-21,010	-20,061
Administrative and general expenses	20	-2,603	-2,887
Other operating income (-expense)	22	242	-181
Operating profit (loss)		-295	875
Finance costs	23	-508	-460
Profit (loss) before income tax		-803	415
Income tax expense	24	-41	-118
Net profit (loss) from continuing operations		-844	297
Net loss for the period from discontinued operations	28	-5,515	-1,560
Net loss for the period		-6,359	-1,263
Basic earnings per share from net loss for the period, EUR	25	-0.16	-0.03
From continuing operations		-0.02	0.01
From discontinued operations		-0.14	-0.04
Diluted earnings per share from net loss for the period, EUR	25	-0.16	-0.03
From continuing operations		-0.02	0.01
From discontinued operations		-0.14	-0.04

The Notes presented on pages 44-81 are an integral part of these consolidated Financial Statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2015	2014
Net loss for the period	-6,359	-1,263
Other comprehensive income		
Items that subsequently may be reclassified to profit or loss		
Currency translation differences	2,723	-1,633
Other comprehensive income (loss) for the period	2,723	-1,633
Total comprehensive loss for the period	-3,636	-2,896
Total comprehensive income (loss) loss arises from:		
Continuing operations	-844	297
Discontinued operations	-2,792	-3,193

The Notes presented on pages 44-81 are an integral part of these consolidated Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2015	2014
Operating activities			
Continuing operations:			
Operating profit (-loss)		-295	875
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	18,19,20	1,234	1,115
Profit/loss from disposals of PPE		-14	4
Other non-monetary expenses		-327	273
Changes in working capital:			
Change in trade and other receivables	5	29	-780
Change in inventories	6	2,042	-911
Change in trade and other payables	13	-19	-429
Interest paid and other financial expenses		-300	-372
Income tax paid		-12	0
Discontinued operations		-77	-317
Net cash generated from (used in) operating activities		2,261	-542
Investing activities			
Continuing operations			
Acquisition of property, plant and equipment, intangibles	9,10	-1,208	-1,424
Proceeds from disposal of PPE, investment property		6	100
Discontinued operations		-7	-28
Net cash used in investing activities		-1,209	-1,352
Financing activities			
Continuing operations:			
Repayments of borrowings	12	-985	-1,222
Change in bank overdraft	12	-226	86
Repayments finance lease	12	-153	-63
Proceeds from bond issue		0	3,000
Net cash generated from (used in) financing activities		-1,364	1,801
Total cash flows		-312	-93
Cash and cash equivalents at the beginning of the period	4	710	852
Effect of exchange losses on cash and cash equivalents		0	-49
Cash and cash equivalents at the end of the period	4	398	710
Change in cash and cash equivalents		-312	-142

The Notes presented on pages 44-81 are an integral part of these consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total
Balance as at 31 December 2013	8,159	684	1,182	2,573	-1,090	11,508
Loss for the period	0	0	0	-1,263	0	-1,263
Other comprehensive loss	0	0	0	0	-1,633	-1,633
Total comprehensive loss	0	0	0	-1,263	-1,633	-2,896
Equity-settled share-based transactions (Note 26)	0	125	0	0	0	125
Total transactions with owners, recognised directly in equity	0	125	0	0	0	125
Balance as at 31 December 2014	8,159	809	1,182	1,310	-2,723	8,737
Loss for the period	0	0	0	-6,359	0	-6,359
Other comprehensive income	0	0	0	0	2,723	2,723
Total comprehensive income (loss)	0	0	0	-6,359	2,723	-3,636
Equity-settled share-based transactions (Note 26)	0	-313	0	0	0	-313
Total transactions with owners, recognised directly in equity	0	-313	0	0	0	-313
Balance as at 31 December 2015	8,159	496	1,182	-5,049	0	4,788

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

The Notes presented on pages 44-81 are an integral part of these consolidated Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

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. Baltika Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and whole- and retail sales. As of the end of 2015, there were 95 Baltika's retail-stores on three markets in the Baltics and 10 stores in Russia (Russian stores are classified as discontinued operations (see Note 28). Baltika also sells its collections through wholesale and franchise (28 stores). As at 31 December 2015 Baltika Group employed 1,174 people (31 December 2014: 1,228).

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

AS Baltika (the Parent company) (registration number: 10144415, address: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2015 was operating in Estonia, Latvia, Lithuania and Russia in retail markets and as a franchisor in Belarus, Spain, Ukraine and Russia.

The consolidated financial statements prepared for the financial year ended at 31 December 2015 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group): OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, OÜ Baltika Retail, OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva, OOO Olivia, OOO Plazma and OOO Stelsing (see Note 27 for group structure).

The Management Board of AS Baltika authorised these consolidated financial statements on 23 March 2016. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Council of the Parent company and the Annual General Meeting of shareholders.

Discontinued operations

As of 31 December 2015 Russian retail market segment met the conditions of a disposal group as held for sale and was classified accordingly. On 22 February 2016 the Group exited Russian retail market. As Russian market represents a major line of business in Group's activities, and its operations and cash flows can be clearly distinguished from other Group's operations and cash flows, its results are reported as discontinued operations. All financial statements and accompanying notes reflect information about continuing operations unless stated otherwise. See more information in Note 28.

Basis of preparation

The Group's 2015 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations that are relevant and became effective for the Group from 1 January 2015:

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2016, and which the Group has not early adopted.

Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016). The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

Principles of consolidation, accounting for business combinations and subsidiaries

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

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

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

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

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

Discontinued operations

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

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

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

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the local currency. The functional currency of the Parent company and subsidiaries located in Baltics is euro¹. The consolidated financial statements have been prepared in euros.

Financial statements of foreign operations

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

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

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

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

Foreign currency transactions and balances

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

Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under "Other operating income (-expense)" (Note 22). Gains and losses arising from cash, cash equivalents and borrowings are recognised net method in "Financial Expenses" (Note 23).

¹ On 1 January 2015 the Republic of Lithuania joined the Euro area and adopted the Euro as its national currency, replacing Lithuanian lit.





Cash and cash equivalents

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

Financial assets

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

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

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

As at 31 December 2015 (and 31 December 2014) the Group had no other classes of financial assets than those classified under the category of loans and receivables.

Loans and receivables

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

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

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

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

Inventories

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

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

maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management).




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

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets (excluding goodwill)

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

Trademarks and licenses

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

Computer software

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

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

Goodwill

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

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

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

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

Impairment of non-current assets

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

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

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

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

Finance and operating leases

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

The Group is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the statement of profit and loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance

of the liability for each period. Assets leased under finance leases are depreciated similarly to acquired non-current assets whereas the depreciation period is the lower of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

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

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

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

Transferred receivables

A factoring contract is the sale of receivables whereby depending on the type of the factoring contract the buyer has the right to sell back the transferred receivable to the seller within a certain time period (factoring with recourse) or there is no sell back right and all the risks and rewards of ownership of a receivable are transferred from the seller to the buyer (factoring without recourse).

Payables to employees

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

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

Provisions and contingent liabilities

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

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

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

Financial liabilities

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

A financial liability is classified as current when it is due within 12 months after the balance sheet date or the Group does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the

approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Offsetting

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

Share capital

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

Compound financial instruments

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

Other reserves

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

Statutory reserve

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

Share-based payments

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

Revenue recognition

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

Retail sales

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

Wholesale, franchise and e-commerce

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

Other

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

Revenue from the sale of goods and services is included in the statement of profit and loss on line "Revenue".

Client bonus provision

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

Interest income and expenses

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

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

Segment reporting

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

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

Segment assets and liabilities include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

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

Corporate income tax in other countries

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

Corporate income tax rates

	2016	2015
Latvia	15%	15%
Lithuania	15%	15%
Russia	20%	20%

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

Earnings per share

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

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

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

Assessment of net realizable value of inventories (Note 6)

Upon valuation of inventories, the Management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of

future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 8,088 thousand euros as at 31 December 2015 and 10,581 thousand euros as at 31 December 2014), upon assessment of net realisable value of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 1,790 thousand euros as at 31 December 2015 and 2,180 thousand euros as at 31 December 2014); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 82 thousand euros as at 31 December 2015 and 79 thousand euros as at 31 December 2014).

Deferred income tax (Note 7)

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

Impairment testing of goodwill (Note 10)

The Management has performed an impairment test for goodwill that arose on the acquisition of the Russian group entities, subsidiary SIA Baltika Latvija and the subsidiary OÜ Baltika Tailor. Goodwill of Russian activities was written off in December 2015 (note 28). Future expected cash flows based on the budgeted sales and production volumes respectively have been taken into consideration in determining the recoverable amount of the cash generating units (CGU). The future expected cash flows have been discounted using the expected rate of return in the particular market within the similar industry. If the recoverable amount of cash generating unit is lower than its carrying amount, an impairment loss is recognised. Impairment testing of goodwill refer to Note 10.

NOTE 3 Financial risks

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

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

Market risk

Foreign exchange risk

In 2015 all sales by continuing operations were made in euros. Sales from continuing operations in foreign currencies not pegged to euro constitute 25% of the revenues of the Group in 2014. In 2015 sales was conducted in RUB only in discontinued Russian market markets. The majority of raw materials used in production are acquired from European Union, goods purchased for resale outside European Union. The major currencies for purchases are EUR (euro) and USD (US dollar). First half of the year was affected by the USD exchange rate as the dollar strengthened against the euro. The purchase price increase due to strengthening of US dollar is indirect and therefore impact cannot be calculated. Realised foreign exchange loss was 14 thousand euros.

Trading with the counterparties in countries belonging to the European Monetary Union is handled mainly in euros. The Group's main revenues arise from retail sales. Prices of goods in the markets are fixed in a local currency and consequently, changes in foreign currency exchange rates directly affect

the Group's revenue through the pricing of goods at the stores in those markets. In addition, a change in the economic environment and relative appreciation/depreciation of a local currency may greatly affect the purchasing power of customers in the market of the respective segment.

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

Average rates	2015	2014
RUB (Russian rouble)	-25.03%	-20.35%
USD (US dollar)	24.54%	-0.03%
GBP (British pound)	11.00%	5.08%

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

Balance-sheet date rates	
RUB (Russian rouble)	-10.33%
USD (US dollar)	11.52%
GBP (British pound)	6.12%

Foreign exchange risk arises only from trade payables (Note 13), as cash and cash equivalents (Note 4), trade receivables (Note 5) are in euro and thereof not open to foreign exchange risk.

If the foreign exchange rates in relation to the euro as at 31 December 2015 had been up to 8% higher (lower), the impact on the net profit for the year would have been +/-2 thousand euros (2014 up to 8% higher (lower)).

The assessment of foreign exchange rate sensitivity to the 2015 result is based on the assumptions that the reasonably possible fluctuations in foreign currency exchange rates of the main trading currencies of the Group are the following: Russian rouble does not exceed +/-27%, US dollar does not exceed +/-8%, British pound does not exceed +/-7%.

The assessment of foreign exchange rate sensitivity to the 2014 result is based on the assumptions that the reasonably possible fluctuations in foreign currency exchange rates of the main trading currencies of the Group are the following: Russian rouble does not exceed +/-30%, US dollar does not exceed +/-5%, British pound does not exceed +/-5%.

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

	Impact 2015	Impact 2014
Cash and cash equivalents	0	25
Trade and other receivables	0	16
Trade and other payables	-2	-52
Total	-2	-11

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

No instruments were used to hedge foreign currency risks in 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-carrying assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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

From non-current borrowings as at 31 December 2015 3,000 thousand were fixed interest rate and 336 thousand euros were subject to a floating interest rate based on Euribor, which is fixed every six months or had a fixed interest rate (Note 12). From non-current borrowings as at 31 December 2014 3,000 thousand were fixed interest rate and 1,584 thousand euros were subject to a floating interest rate based on Euribor, which is fixed every six months or had a fixed interest rate (Note 12). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

If for the reporting period, floating interest rates on borrowings had been one percentage point higher with all other variables held constant, the post-tax profit for the year would have been 47 thousand euros (2014: 69 thousand euros post-tax profit lower) higher and if 0.1 percentage point lower, the post-tax loss for the year would have been 1 thousand euros lower (2014: 7 thousand euros post-tax profit lower).

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

Price risk

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

Credit risk

Credit risk arises from cash and cash equivalents, deposits (recognised as other receivables) with banks and financial institutions as well as outstanding receivables.

Cash and cash equivalents

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

Cash and cash equivalents at bank classified by credit rating¹

	31 Dec 2015	31 Dec 2014
A	293	440
B	3	53
C	0	13
Total (Note 4)	296	506

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

Receivables

As at 31 December 2015 the maximum exposure to credit risk from trade receivables (Note 5) and other non-current assets (Note 8) amounted to 1,455 thousand euros (31 December 2014: 1,566 thousand euros) on a net basis after the allowances.

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

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, and monitors receivables and purchase contracts. A Group current account/overdraft facility is in use for more flexible management of liquid assets, enabling Group companies to use the Group's resources up to the limit established by the Parent company (Note 12). The unused limit of Group's overdraft facilities as at 31 December 2015 was 2,574 thousand euros (31 December 2014: 2,347 thousand euros).

Financial liabilities by maturity as at 31 December 2015

	Carrying amount	Undiscounted cash flows ¹			Total
		1-3 months	3-12 months	1-5 years	
Loans (Note 12) ²	2,806	196	2,684	0	2,880
Finance lease liabilities (Note 12)	491	47	141	328	517
Convertible bonds (Note 12, 15)	3,024	0	24	3,624	3,648
Trade payables (Note 13)	3,640	7	3,633	0	3,640
Other financial liabilities (Note 13)	2	2	0	0	2
Total	9,963	252	6,482	3,952	10,687

Financial liabilities by maturity as at 31 December 2014

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

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

²Used overdraft facilities are shown under loans based on the contractual date of payment.

Operational risk

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

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

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

The most important operating risk arises from the Group's inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted.

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

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

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.

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

Capital management

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

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

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

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

The Group's strategy is to maintain the capital to net gearing ratio under 50%. In 2015 the ratio was 123%. In 2014 the ratio was 75%. The deterioration of the ratio is influenced by the loss earned during the year, mostly because of the one time cost related to the sale of Russian subsidiaries (see also Note 28).

Net gearing ratio

	31 Dec 2015	31 Dec 2014
Total borrowings (Note 12)	6,297	7,252
Cash and cash equivalents (Note 4)	-398	-710
Net debt	5,899	6,542
Total equity	4,788	8,737
Net gearing ratio	123%	75%

Fair value

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

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

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

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

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

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

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

NOTE 4 Cash and cash equivalents

	31 Dec 2015	31 Dec 2014
Cash at hand	102	86
Cash at bank and overnight deposits	296	624
Total	398	710

Cash and cash equivalents by currency

	31 Dec 2015	31 Dec 2014
EUR (euro)	398	429
LTL (Lithuanian lit)	0	197
RUB (Russian rouble)	0	84
Total	398	710

For additional information also see Note 3.

NOTE 5 Trade and other receivables

	31 Dec 2015	31 Dec 2014
Trade receivables, net	1,186	1,456
Other prepaid expenses ¹	189	401
Tax prepayments and tax reclaims, thereof	213	3
Value added tax	209	1
Prepaid income tax	0	0
Other taxes	4	2
Other prepayments	19	30
Total	1,607	1,890

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

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

	Baltic region	Eastern European region	Other regions	Total
31 December 2015				
Not due	362	444	71	877
Up to 1 month past due	78	9	22	109
1-3 months past due	4	0	39	43
3-6 months past due	1	0	140	141
Over 6 months past due	0	0	16	16
Total	445	453	288	1,186

	Baltic region	Eastern European region	Other regions	Total
31 December 2014				
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

For the wholesale customers' credit policy is based on next actions: monitoring credit amounts, past experience and other factors are taken into consideration. For some wholesale clients prepayments or payment guarantees through bank are required. One customer receivables are transferred under a factoring contract. 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. Trade receivables allowance expense in 2015 was 16 thousand euros. In 2014 no irrecoverable receivables were derecognized.

Trade receivables (net) in denominated currency

	31 Dec 2015	31 Dec 2014
EUR (euro)	1,186	1,352
RUB (Russian rouble)	0	53
LTL	0	51
Total	1,186	1,456

For additional information also see Note 3.

NOTE 6 Inventories

	31 Dec 2015	31 Dec 2014
Fabrics and accessories	1,790	2,180
Work-in-progress	82	79
Finished goods and goods purchased for resale	8,588	10,911
Allowance for impairment of finished goods and goods purchased for resale (Note 18)	-500	-330
Prepayments to suppliers	464	575
Total	10,424	13,415

For additional information also see Note 2.

NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2015

	Baltic region	Total
Deferred income tax asset		
On tax loss carry-forwards	234	234
Total	234	234
Deferred income tax asset, net, thereof	234	234
Non-current portion	234	234
Deferred income tax expense (Note 24)	-40	-40

Deferred income tax as at 31 December 2014

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

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

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

The Group recognised in the statement of financial position all deferred income tax assets (did not recognise as at 31 December 2014: 125 thousand euros) in respect of losses and other tax based differences (did not recognise as at 31 December 2014: 621 thousand euros) that can be carried forward against future taxable income. Losses and other tax based differences can be used for unlimited period.

For additional information also see Note 2.

NOTE 8 Other non-current assets

	31 Dec 2015	31 Dec 2014
Non-current portion of lease prepayments ¹	278	343
Other long-term receivables ²	306	262
Total other non-current assets	584	605

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

²Other long term receivables consist of the receivables from the sale of property and assets, trademarks MasCara

Credit risk arises from other long-term receivables (Note 3). The Group monitors continuously outstanding credit amount and the adherence to agreed dates. MasCara trademarks sales related receivable payment schedules and interest rates were renegotiated and amendment to previous agreement signed in 2015. All receivables are paid according to contractual schedule.

NOTE 9 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre- payments	Total
At 31 December 2013					
Acquisition cost	4,318	5,410	7,041	0	16,769
Accumulated depreciation	-3,392	-4,685	-5,669	0	-13,746
Net book amount	926	725	1,372	0	3,023
Additions	344	238	694	0	1,276
Disposals, impairments (Note 22)	-94	-32	-75	0	-201
Depreciation (Note 18-20)	-301	-281	-424	0	-1,006
Currency translation differences	-92	-42	-63	0	-197
At 31 December 2014					
Acquisition cost	2,330	5,143	5,253	0	12,726
Accumulated depreciation	-1,547	-4,535	-3,749	0	-9,831
Net book amount	783	608	1,504	0	2,895
Additions	491	105	559	1	1,156
Disposals, impairments (Note 22)	-2	1	0	0	-1
Depreciation (Note 18-20)	-280	-198	-467	0	-945
Reclassification to held for sale (Note 28)	-85	-49	-61	0	-195
At 31 December 2015					
Acquisition cost	2,452	4,736	4,491	1	11,680
Accumulated depreciation	-1,545	-4,269	-2,956	0	-8,770
Net book amount	907	467	1,535	1	2,910

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

NOTE 10 Intangible assets

	Licenses, software and other	Trade- marks	Prepayments	Goodwill	Total
At 31 December 2013					
Acquisition cost	2,296	1,243	0	2,279	5,818
Accumulated amortisation	-1,464	-204	0	0	-1,668
Net book amount	832	1,039	0	2,279	4,150
Additions	67	0	0	0	67
Disposals	-12	0	0	0	-12
Amortisation (Note 18-20)	-267	-45	0	0	-312
Currency translation differences	-4	0	0	-196	-200
At 31 December 2014					
Acquisition cost	2,132	1,243	28	1,495	4,898
Accumulated amortisation	-1,425	-293	0	0	-1,718
Net book amount	707	950	28	1,495	3,180
Additions	80	0	-28	0	52
Impairment (Note 28)	-8	0	0	-885	-893
Amortisation (Note 18-20)	-250	-44	0	0	-294
Currency translation differences	0	0	0	-101	-101
At 31 December 2015					
Acquisition cost	2,261	1,243	0	509	4,013
Accumulated amortisation	-1,732	-337	0	0	-2,069
Net book amount	529	906	0	509	1,944

Impairment tests for goodwill

Goodwill, carrying value as at 31 December 2015 509 thousand euros (31 December 2014: 1,495 thousand euros), is tested for impairment at each balance sheet date.

The goodwill of Russian Group entities was written-off in 2015 in the amount of 885 thousand euros. The write-off decision was made based on the decision to discontinue retail operations in Russia.

The carrying amount of goodwill applicable to CGUs (cash generating units) of Baltika Tailor OÜ and SIA Baltika Latvija was tested for impairment at 31 December 2015. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

Balance at 31 December	Baltika Tailor CGU		Russian entities		Baltika Latvija CGU	
	2015	2014	2015	2014	2015	2014
Carrying amount of goodwill	355	355	-	986	154	154
Growth in revenue ¹	4.1%	3.2%	-	-40%+10%	4.8%	3.1%
Growth rate ²	2.0%	2.0%	-	2.0%	2.0%	2.0%
Discount rate ³	13.0%	13.5%	-	18.8%	11.9%	13.1%
Difference between recoverable and carrying amount	146	248	-	266	25,946	25,054

¹Management determined average annual growth in revenue for Baltika Tailor and sales efficiency per square metre for and Baltika Latvija for the five-year period (also for Russian group entries in 2014).

²Growth rate used to extrapolate cash flows beyond the year 2020.

³Pre-tax discount rate applied to the cash flow projections (WACC). The change in discount rates results from changes in industry indicators for the specific region.

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

The tests resulted in recoverable value exceeding the carrying amount of the cash generating unit and consequently no impairment losses have been recognised. If the average annual growth in sales efficiency (sales per m²) were -5.6% for SIA Baltika Latvija the recoverable amount would have been equal to the carrying amount (31 December 2014: 1% for Russian entities and -8.0% for SIA Baltika Latvija). If the average annual growth in sales for Baltika Tailor were 2.7% (31 December 2014 0.8%) the recoverable amount would have been equal to the carrying amount. If the average annual gross profit margin were lower by 34.8% and 0% for SIA Baltika Latvija and Baltika Tailor respectively the recoverable amount would have been equal to the carrying amount (31 December 2014: respectively 36.9% SIA Baltika Latvija, 1.8% Russian group entities, 0.5% Baltika Tailor).

NOTE 11 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31 Dec 2015	31 Dec 2014
Up to 1 year	4,068	4,596
1-5 years	8,491	4,574
Over 5 years	920	1,382
Total	13,479	10,552

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

The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements which stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation. In 2015, operating lease costs amounted to 7,339 thousand euros (2014: 7,091 thousand euros) (Note 18-20).

Finance lease – the Group as the lessee

	Machinery and equipment	Other fixtures	Total
At 31 December 2013			
Acquisition cost	1,244	273	1,517
Accumulated depreciation	-819	-126	-945
Net book amount	425	147	572
Additions	143	0	143
Depreciation	-137	-24	-161
At 31 December 2014			
Acquisition cost	1,384	273	1,657
Accumulated depreciation	-955	-148	-1,103
Net book amount	429	125	554
Additions	44	26	70
Depreciation	-117	-18	-135
At 31 December 2015			
Acquisition cost	1,428	299	1,727
Accumulated depreciation	-1,072	-166	-1,238
Net book amount	356	133	489

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

In 2015, the Group settled finance lease payments in the amount of 153 thousand euros (2014: 63 thousand euros).

NOTE 12 Borrowings

	31 Dec 2015	31 Dec 2014
Current borrowings		
Current portion of long-term bank loan (Note 3)	1,380	984
Bank overdrafts (Note 3)	1,426	1,653
Current finance lease liabilities (Note 3)	179	55
Other current loans (Note 3)	24	0
Total	3,009	2,692
Non-current borrowings		
Non-current bank loan (Note 3)	0	1,379
Non-current finance lease liabilities (Note 3)	312	181
Convertible bonds (Note 26, 3)	3,000	3,024
Total	3,312	4,584
Total borrowings	6,321	7,276

During the reporting period, the Group made loan repayments in the amount of 985 thousand euros (2014: 1,096 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 475 thousand euros (2014: 423 thousand euros), including interest expense from borrowings or convertible bonds to related party (Note 15). Unused part of overdrafts was 2,574 thousand euros as at 31 December 2015 (31 December 2014: 2,347 thousand euros).

Finance lease is used for acquisition of cars, furniture and equipment for shops.

Changes in 2015

In April an annex under an existing facility agreement was signed, which prolonged overdrafts' repayment date until July 2016 (in the amount of 3,000 thousand euros). The annex removed the option to increase and decrease overdraft limit according to seasonality. In December a separate overdraft facility agreement's repayment date was prolonged until June 2016 in the amount of 1,000 thousand euros.

Changes in 2014

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

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

In addition the repayment date of a separate overdraft facility agreement was prolonged for one year in the fourth quarter in the amount of 1,000 thousand euros.

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

Interest carrying loans of the Group as at 31 December 2015

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month Eonia)	2,806	EURIBOR or EONIA +4.60%
Borrowings at fixed interest rate (Note 26)	3,000	6.50%
Total	5,806	

Interest carrying loans of the Group as at 31 December 2014

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

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

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

The Group's collaterals for bank borrowings

As at 31 December 2015 the bank borrowings were secured with following asset types:

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

As at 31 December 2015 carrying amount of assets pledged was 12,429 thousand euros, including inventories in amount of 10,424 thousand euros, property, plant and equipment in amount of 2,910 thousand euros, intangible assets in amount of 1,944 thousand euros and cash on the bank accounts 296 thousand euros.

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

Bank loans set certain level to financial ratios for the Group. As at 31 December 2015 and 31 December 2014 AS Baltika, was not compatible with some of the terms and conditions of the bank loan agreement. Although the bank has confirmed that the loan will not become due and payable prematurely, this loan is classified as short-term as at 31 December 2015 as the contractual payment date is in year 2016.

For additional information also see Note 3.

NOTE 13 Trade and other payables

	31 Dec 2015	31 Dec 2014
Current liabilities		
Trade payables	3,640	3,969
Tax liabilities, thereof	1,570	1,463
Personal income tax	229	252
Social security taxes and unemployment insurance premium	559	581
Value added tax	744	578
Corporate income tax liability	0	20
Other taxes	38	32
Payables to employees ¹	995	1,030
Other accrued expenses	49	119
Customer prepayments	71	137
Other current payables	2	1
Total	6,327	6,719
Non-current liabilities		
Other liabilities	283	83

¹Payables to employees consist of accrued wages, salaries and vacation accrual. Tax authorities are entitled to check the Group's tax accounting up to within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. The tax legislation of the countries the Group is operating which was enacted or substantively enacted at the end of the reporting period may be subject to varying interpretations. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

Trade payables and other accrued expenses in denominated currency

	31 Dec 2015	31 Dec 2014
EUR (euro)	3,618	2,884
USD (US dollar)	22	981
LTL (Lithuanian lit)	0	62
GBP (British pound)	0	37
RUB (Russian rouble)	0	5
Total	3,640	3,969

For additional information also see Note 3.

NOTE 14 Provisions

Current provisions	31 Dec 2015	31 Dec 2014
Client bonus provision	370	300
Other provisions	12	0
Total	382	300

Short description of the client bonus provision

In 2014 Baltika introduced a new loyal customer program "AndMore" in Baltic states, that unified Baltika brand's customer base and customer discount logic. The program was introduced by stages in different countries; web-shop was included by the end of the year.

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

Used assumptions

As at 31 December 2015 the Group has recognized additional client bonus provision in the amount of 70 thousand euros. The Group has used existing statistics that enables to characterize customer's behaviour of the bonus usage: earnings, usage and expiration.

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

See also Note 17.

NOTE 15 Equity

Share capital

	31 Dec 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

As at 31 December 2015 and 31 December 2014 shares comprise only ordinary shares, which are listed on the Nasdaq Tallinn.

Change in the number of shares

	Number of shares
Number of shares 31 December 2014	40,794,850
Number of shares 31 December 2015	40,794,850

As at 31 December 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.

Changes in share capital

Convertible bonds and share options

	Issue date	Bond conversion period	Number of convertible bonds 31 Dec 2015	Number of convertible bonds 31 Dec 2014
I-Bond	30 June 2012	01 July 2015 - 31 Dec 2015	0	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, thereof also to related parties. As of 31 December 2015 no applications were received to mark the shares, at the beginning on 2016 all the payments for the shares were paid back. The value of employee services previously recognised in share premium in the amount of 313 thousand euros was released.

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 AS Baltika 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.

Share options

Share option program

On 27 April 2015 the Annual General Meeting of shareholders decided to conditionally increase share capital up to 1 000 000 registered shares with nominal value of 0,20 euro subscription price of 0,20 euro related to share option program. If the Baltika share price increase conditions are fulfilled, AS Baltika members of the Management Board may mark the shares three years from the date when the share option agreement has been signed.

Reserves

	31 Dec 2015	31 Dec 2014
Statutory reserve	1,182	1,182

Shareholders as at 31 December 2015

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	5,724,872	14.03%
3. BMIG OÜ*	4,750,033	11.64%
4. Skandinaviska Enskilda Banken Ab clients	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,458,000	3.57%
6. Members of Management and Supervisory Councils and persons related to them		
Meelis Milder	1,000,000	2.45%
Persons related to members of Management Board	331,183	0.81%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	10,522,721	25.81%
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 Ab clients	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,604,000	3.93%
6. Members of Management and Supervisory Councils 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%

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

The shares of the Parent company are listed on the Nasdaq Tallinn. The Parent company does not have a controlling shareholder or any shareholders jointly controlling the entity.

Retained earnings

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

NOTE 16 Segments

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

Parent company's Management Board assesses the performance from operations area perspective i.e. the performance of retail and wholesale (including franchise and e-commerce). 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;

- Previously Eastern-Europe. This segment has been presented as discontinued operations and is no longer included in segment information as Baltika Group finished operations in Ukraine and Russia.

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

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. 2014 results are restated as results from Russian market are shown as discontinued operations (previously presented as Retail, Eastern Europe). From 2016 onwards wholesale to Russia will be reported in Wholesale segment.

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

	Retail, Baltic region	Wholesale ¹	Total
2015			
Revenue (from external customers)	42,730	6,076	48,806
Segment profit ²	7,264	696	7,960
Incl. depreciation and amortisation	-758	-97	-855
Inventories of segments	4,465	0	4,465
2014			
Revenue (from external customers)	42,163	5,702	47,865
Segment profit ²	8,658	1,233	9,893
Incl. depreciation and amortisation	-610	-31	-641
Inventories of segments	4,967	0	4,967

¹The wholesale segment includes the sale of goods to wholesale and franchise clients, materials and sewing services and the sales from e-commerce.

²The segment profit is the segment operating profit, excluding other operating expenses and income.

Reconciliation of segment operating profit to consolidated operating profit

	2015	2014
Total segment profit	7,960	9,893
Unallocated expenses: ¹		
Costs of goods sold and distribution costs	-5,970	-5,950
Administrative and general expenses	-2,585	-2,887
Other operating income (expenses), net	300	-181
Operating profit (loss)	-295	875

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

Reconciliation of segment inventories to inventories on consolidated statement of financial position

	31 Dec 2015	31 Dec 2014
Total inventories of segments	4,465	4,967
Inventories in Parent company and production company	5,959	8,448
Inventories on statement of financial position	10,424	13,415

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

	31 Dec 2015	31 Dec 2014
Retail, Baltic region	2,524	2,192
Non-current assets of discontinued operations	0	1,183
Wholesale	136	208
Assets in parent company and production company	2,194	2,492
Total	4,854	6,075

NOTE 17 Revenue and client bonus reserve

	2015	2014
Sale of goods in retail channel	42,730	42,163
Sale of goods in wholesale, franchise and e-commerce channel	5,951	5,536
Other sales	125	166
Total	48,806	47,865

Sales by geographical (client location) areas

	2015	2014
Estonia	21,199	19,876
Lithuania	12,241	12,352
Latvia	11,700	11,887
Russia	1,039	1,033
Ukraine	978	901
Finland	679	851
Belarus	248	302
Spain	541	287
Germany	92	280
Other countries	89	96
Total	48,806	47,865

Client bonus provision

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

The provision as of 31 December 2015 was increased by 70 thousand euros. For further information about the assumptions used to form a provision see Note 14.

NOTE 18 Cost of goods sold

	2015	2014
Materials and supplies	20,835	19,150
Payroll costs in production	3,385	3,425
Operating lease expenses (Note 11)	661	681
Other production costs	393	419
Change in allowance for inventories (Note 6)	251	-256
Depreciation of assets used in production (Note 9,10)	127	160
Changes in inventories	8	-18
Total	25,660	23,561

NOTE 19 Distribution costs

	2015	2014
Payroll costs	9,669	9,239
Operating lease expenses (Note 11)	6,235	5,943
Advertising expenses	1,396	1,360
Depreciation and amortisation (Note 9,10)	996	784
Fuel, heating and electricity costs	523	543
Fees for card payments	333	330
Municipal services and security expenses	329	259
Consultation and management fees	242	201
Travel expenses	179	218
Information technology expenses	162	161
Communication expenses	109	112
Agency fees	99	128
Other sales expenses ¹	738	783
Total	21,010	20,061

¹Other 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 organizations.

NOTE 20 Administrative and general expenses

	2015	2014
Payroll costs ¹	1,145	1,316
Operating lease expenses (Note 11)	443	467
Information technology expenses	246	264
Bank fees	180	200
Management, juridical-, auditor's and other consulting fees	117	130
Depreciation and amortisation (Note 9,10)	111	105
Fuel, heating and electricity expenses	83	101
Sponsorship, gifts, donations	38	21
Office materials	33	49
Other administrative expenses ²	207	234
Total	2,603	2,887

¹Payroll costs in 2014 include also value of employee services received under the share options programme in amount of 125 thousand euros. see Note 21, 15.

²Other administrative expenses consist of insurance, communication, travel, training, municipal and security expenses and other services.

NOTE 21 Wages and salaries

	2015	2014
Payroll costs	10,754	10,481
Social security costs	3,445	3,374
Value of employee services related to share options (Note 20)	0	125
Total	14,199	13,980

NOTE 22 Other operating income (-expense)

	2015	2014
Gain (loss) from sale, impairment of PPE and immaterial assets	4	13
Other operating income	347	32
Foreign exchange losses	-36	-104
Fines, penalties and tax interest	-3	-5
Other operating expenses	-70	-117
Total	242	-181

For additional information also see Note 9, 10.

NOTE 23 Finance income and costs

	2015	2014
Interest costs	-475	-423
Other finance costs	-33	-37
Total	-508	-460

NOTE 24 Income tax

	2015	2014
Income tax expense	1	16
Deferred income tax expense (Note 7)	40	102
Total income tax expense	41	118

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

Income tax expense relates to continued operations. The information of discontinued operations tax expense and the deferred tax asset write-off refer to Note 28.

Income tax by regions for the year ended at 31 December 2015

	Baltic region	Eastern European region	Total
Profit (loss) before tax	-803	0	-803
Average nominal tax rate	0-15%	0	0-15%
Tax calculated from profit (loss) at the nominal tax rate	40	0	40
The effect of income/expenses not deductible for tax purposes	-23	0	-23
Utilisation of tax losses carried forward/additions of tax profits	-34	0	-34
Changes in recognised balance sheet deferred tax assets	40	0	40
Income tax expense	1	0	1
Deferred income tax expense (income) (Note 7)	40	0	40
Changes in off balance sheet deferred tax assets (- decrease)	0	0	0

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

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




NOTE 25 Earnings per share
Basic earnings per share

		2015	2014
Weighted average number of shares (thousand)	pcs	40,795	40,795
Net profit (loss) from continuing operations	EUR	-844	297
Net loss from discontinued operations	EUR	-5,515	-1,560
Basic earnings per share	EUR	-0.16	-0.03
Basic earnings per share (continuing operations)	EUR	-0.02	0.01
Basic earnings per share (discontinued operations)	EUR	-0.14	-0.04

Diluted earnings per share

		2015	2014
Weighted average number of shares (thousand)	pcs	40,795	40,795
Adjustments:			
- weighted average of J-bonds that are dilutive (thousand)	psc	0	2,581
- weighted average number of share options that are dilutive (thousand)	psc	230	0
Weighted average number of ordinary shares for diluted earnings per share (thousand)	psc	41,025	43,376
Net profit (loss) from continuing operations	EUR	-844	297
Net loss from discontinued operations	EUR	-5,515	-1,560
Interest expense (convertible bonds)	EUR	0	83
Profit (loss) used to determine diluted earnings per share		-6,359	-1,180
Diluted earnings per share	EUR	-0.16	-0.03
Diluted earnings per share (continuing operations)	EUR	-0.02	0.01
Diluted earnings per share (discontinued operations)	EUR	-0.14	-0.04

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

-  I-bonds in 2014 and 2015
-  J-bonds in 2014 and 2015
-  Share option program in 2015

In 2014 J-bonds assumed to have been converted into ordinary shares and the net profit (loss) is adjusted by eliminating the interest expense. In 2015 J-bonds have not been assumed to have been converted into ordinary shares based on the average share price on Nasdaq Tallinn Stock exchange.

For the share options (I-bonds), a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company's share) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares, calculated as above, was compared with the number of shares that would have been issued assuming the exercise of the share options. In 2015 and in 2014 I-bonds were not dilutive.

For the share option program, a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company's share) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares, calculated as above, was compared with the number of shares that would have been issued assuming the exercise of the share options. In 2015 Share option program was assumed to have been converted into ordinary shares.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in 2015 was 0.37 euros (2014: 0.49 euros).

NOTE 26 Related parties

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

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

- ☒ owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 15);
- ☒ members of the Management Board and the Supervisory Council¹;
- ☒ immediate family members of the persons stated above;
- ☒ entities under the control or significant influence of the members of the Management Board and Supervisory Council and immediate family members;

¹Only 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	2015	2014
Services from entities under the control or significant influence of the members of the Management Board and Supervisory Council	355	355
Total	355	355
Sales	2015	2014
Goods to the members of the Management Board and Supervisory Council	7	0
Total	7	0

In 2015 AS Baltika bought mostly communication and other services from related parties. In 2014 AS Baltika bought mostly management, communication and other services. See also Notes 19, 20.

Balances with related parties

	31 Dec 2015	31 Dec 2014
Other current loans (Note 12, 13)	2,804	2,639
Trade payables (Note 13)	17	31
Total	2,821	2,670

All transactions in 2015 as well as in 2014 and balances with related parties as at 31 December 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 immediate family members. As at 31 December 2015 and 31 December 2014 the balances from borrowings, interests are partly with counterparty, who is also a shareholder that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	2015	2014
Salaries of the members of the Management Board	224	380
Remuneration of the members of the Supervisory Council	14	18
Total	238	398

As at 31 December 2015 there were three Management Board and five Supervisory Council Members, while as at 31 December 2014 there were five Management Board and five Supervisory Council Members.

In April the Supervisory Council recalled from the Management Board Andrew James David Paterson, who was entitled in accordance with agreement to termination compensation, which was disbursed in 2015.

From 8 September 2015 Maire Milder is no longer member of Management Board. Maire Milder continues in the Group as the director of Branding and Retail Development.

On 30 January 2015 the Supervisory Board of AS Baltika decided to suspend Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave and Meelis Milder was pointed to be responsible for finance decisions and sharing stock market information during that period. From 1 February Maigi Pärnik-Pernik continued as member of Management Board.

The termination benefits for the members of the Management Board are limited to 3-18 month's salary expense (no taxes included) in the amount that is approximately 234 thousand euros (2014: 213 thousand euros) in total in case of premature termination.

In 2014 no changes took place composition of Management Board or Supervisory Council.

No compensations for terminating Management Board or Supervisory Council status were paid in 2014. No compensations for terminating Supervisory Council status were paid in 2015.

In 2015 share option program was issued to the Management Board members (Note 15).

In 2014 convertible bonds (J-bonds) were partly issued to related party. Share options I-bonds are partly issued to related parties (Note 12, 15). J-bonds matured in 2015 and reimbursement of bond nominal in the amount of 23.5 thousand euros was made in January 2016.

NOTE 27 Subsidiaries

Subsidiary	Location	Activity	Holding as at 31 Dec 2015	Holding as at 31 Dec 2014
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman ¹	Estonia	Retail	100%	100%
SIA Baltika Latvija ²	Latvia	Retail	100%	100%
UAB Baltika Lietuva ²	Lithuania	Retail	100%	100%
OOO „Olivija“ ³	Russia	Retail	100%	100%
OY Baltinia AB	Finland	Dormant	100%	100%
Baltika Sweden AB	Sweden	Dormant	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%

¹Interest through OÜ Baltika Retail

²Interest through Baltman OÜ in 2015, in 2014 through OÜ Baltika Retail

³OOO „Olivija“ represents Russian consolidation group, which also includes OOO „Plazma“ and OOO „Stelsing“

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's assets, rights and obligations amount, content and nature. The merger had no economic effect on the other subsidiaries of the Group.

In December 2015 structural change was made in AS Baltika subsidiary OÜ Baltika Retail: OÜ Baltika Retail subsidiary OÜ Baltman acquired OÜ Baltika Retail subsidiaries SIA Baltika Latvia and UAB Baltika Lietuva. Companies continued their businesses at same volume and mentioned changes had no effect on the AS Baltika consolidated profit, assets or liabilities.

Changes in 2014

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

NOTE 28 Discontinued operations

Changes in 2015

AS Baltika decided in the end of 2015 to exit Russian retail market to reduce economic and political risks.

As Russian 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 report. In 2014 Russian subsidiary’s results were reported as retail in Eastern-Europe segment.

On 22 February 2016 AS Baltika signed an agreement by which all Russian subsidiaries shares were sold to Osaühing Ellipse Group. Baltika Group’s brands will continue in Russian market through 5-year franchise agreement.

In the fourth quarter, prior to sales transaction, AS Baltika classified all assets of the disposal group as held for sale and reameasured to nil. Non-monetary loss from remeasurements in total was 4,645 thousand euros. Goodwill was written-off in full by 885 thousand euros, currency exchange differences previously recognised in a reserve in equity were recycled to income statement in the amount of 2,969 thousand euros, allowance reserve was made for working capital and non-current assets in the amount of 791 thousand euros.

Changes in 2014

AS Baltika 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 were clearly distinguished from other Group’s operations and cash flows, it’s results are reported as discontinued operations in 2014 and current year.

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

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

Revenue and expenses of discontinued operations (Russia)

	2015	2014
Discontinued operation		
Revenue	4,492	7,730
Expenses	-5,020	-7,965
Other operating income (-expense)	-317	13
Loss before income tax	-845	-222
Income tax relating to the discontinued operations	-25	-10
Loss after income tax	-870	-232
Loss from remeasurement of assets classified as held for sale	-4,645	0
Net loss for the reporting period	-5,515	-232

Revenue and expenses of discontinued operations (Ukraine)

	2015	2014
Discontinued operation		
Revenue	0	1,531
Expenses	0	-1,896
Other operating expense	0	-271
Loss before income tax	0	-636
Loss after income tax	0	-636
Loss from disposal of discontinued operation and remeasurement of assets of discontinued operations	0	-693
Net loss for the reporting period	0	-1,329

Cash-flow of the discontinued operation Russia

	2015	2014
Net cash used in operating activities	-77	-137
Net cash used in investing activities	-7	-20
Total cash flows	-84	-157
Cash and cash equivalents at the beginning of the period	84	241
Cash and cash equivalents at the end of the period	0	84
Change in cash and cash equivalents	-84	-157

Cash-flow of the discontinued operation Ukraine

	2015	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 29 Supplementary disclosures on the parent company of the Group

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

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

Statement of financial position of the parent company

	31 Dec 2015	31 Dec 2014
ASSETS		
Current assets		
Cash and cash equivalents	55	113
Trade and other receivables	4,648	5,035
Inventories	6,365	7,721
Total current assets	11,068	12,869
Non-current assets		
Investments in subsidiaries	1,324	2,976
Other non-current receivables	246	419
Property, plant and equipment	286	375
Intangible assets	1,395	1,602
Total non-current assets	3,251	5,372
TOTAL ASSETS	14,319	18,241
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	2,841	2,648
Trade and other payables	7,891	16,865
Total current liabilities	10,732	19,513
Non-current liabilities		
Borrowings	3,067	4,481
Other liabilities	284	83
Total non-current liabilities	3,351	4,564
TOTAL LIABILITIES	14,083	24,077
EQUITY		
Share capital at par value	8,159	8,159
Share premium	496	809
Statutory reserve	1,182	1,182
Retained losses	-9,601	-15,986
TOTAL EQUITY	236	-5,836
TOTAL LIABILITIES AND EQUITY	14,319	18,241

Statement of comprehensive income of the parent company

	2015	2014
Revenue	33,544	36,169
Cost of goods sold	-26,480	-28,224
Gross profit	7,064	7,945
Distribution costs	-5,892	-5,780
Administrative and general expenses	-2,543	-2,814
Other operating income (-expense)	289	-4,026
Operating profit (loss)	-1,082	-4,675
Dividend income	0	193
Impairment and reversal of investments and receivables from subsidiaries	8,626	-2,561
Interest expenses, net	-1,159	-1,208
Net loss(-)/profit for the financial year	6,385	-8,251
Total comprehensive income loss(-)/profit	6,385	-8,251

Cash flow statement of the parent company

	2015	2014
Operating activities		
Operating loss	-1,082	-4,675
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	349	289
Other non-monetary expenses	-545	1,767
Changes in trade and other receivables	387	5,794
Changes in trade and other payables	-8,974	-2,745
Changes in inventories	1,356	-871
Interest paid	-300	-1,162
Net cash used in operating activities	-8,809	-1,603
Investing activities		
Acquisition of non-current assets	-66	-378
Proceeds from disposal of non-current assets	0	9
Dividends received	0	193
Proceeds from subsidiary share capital reduction	10,101	0
Net cash used in investing activities	10,035	-176
Financing activities		
Repayments of borrowings	-985	-1,222
Change in bank overdraft	-226	86
Repayments of finance lease	-73	-14
Proceeds from bond issue	0	3,000
Net cash generated from financing activities	-1,284	1,850
Total cash flows	-58	71
Cash and cash equivalents at beginning of year	113	42
Cash and cash equivalents at end of year	55	113
Change in cash and cash equivalents	-58	71

Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2013	8,159	684	1,182	-7,735	2,290
Total comprehensive loss	0	0	0	-8,251	-8,251
Equity-settled share-based transactions	0	125	0	0	125
Balance at 31 December 2014	8,159	809	1,182	-15,986	-5,836
Book value of holdings under control or significant influence					-2,976
Value of holdings under control or significant influence, calculated under equity method					11,713
Adjusted unconsolidated equity at 31 December 2014					8,737
Total comprehensive income	0	0	0	6,385	6,385
Equity-settled share-based transactions	0	-313	0	0	-313
Balance at 31 December 2015	8,159	496	1,182	-9,601	236
Book value of holdings under control or significant influence					-1,324
Value of holdings under control or significant influence, calculated under equity method					6,112
Adjusted unconsolidated equity at 31 December 2015					4,788

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



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Baltika

We have audited the accompanying consolidated financial statements of AS Baltika and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Baltika and its subsidiaries as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Tiit Raimla'.

Tiit Raimla
Auditor's Certificate No. 287

A handwritten signature in blue ink, appearing to read 'Heili Uustalu'.

Heili Uustalu
Auditor's Certificate No. 630

23 March 2016

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

PROFIT (LOSS) ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net loss for the year ended at 31 December 2015 in the amount of -6,359 thousand euros to be covered by retained earnings:

Retained earnings	-6,359
Total	-6,359

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY COUNCIL

The Management Board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2015.

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



Meelis Milder
Chairman of the Management Board
23 March 2016



Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Council
23 March 2016



Maigi Pärnik-Pernik
Member of the Management Board
23 March 2016



Tiina Mõis
Member of the Supervisory Council
23 March 2016



Reet Saks
Member of the Supervisory Council
23 March 2016



Lauri Kustaa Äimä
Member of the Supervisory Council
23 March 2016



Valdo Kalm
Member of the Supervisory Council
23 March 2016

AS BALTIKA SUPERVISORY COUNCIL



JAAKKO SAKARI MIKAEL SALMELIN

Chairman of Supervisory Council since 23 May 2012, member of the Supervisory Council since 21 June 2010

Partner, KJK Capital Oy

Master of Science in Finance, Helsinki School of Economics

Other assignments:

Member of the Management Board of KJK Fund SICAV-SIF,

Member of the Board of Directors, KJK Management SA,

Member of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 Dec 2015: 0



TIINA MOIS

Member of the Supervisory Council since 03 May 2006

Chairman of the Management Board of AS Genteel

Degree in Economical Engineering, Tallinn University of Technology

Other assignments: ,

Member of the Supervisory Councils of AS LHV Pank and AS LHV Group,

Member of Estonian Accounting Standards Board.

Baltika shares held on 31 Dec 2015: 977,837 shares (on AS Genteel account)¹



REET SAKS

Member of the Supervisory Council since 25 March 1997

Attorney at Raidla Ellex Law Office

Degree in Law, University of Tartu

Baltika shares held on 31 Dec 2015: 0



LAURI KUSTAA ÄIMÄ

Member of the Supervisory Council since 18 June 2009

Managing Director of Kaima Capital Oy

Master of Economics, University of Helsinki

Other assignments:

Member of the Supervisory Council of AS Tallink Grupp,

Member of the Board of Oy Tallink Silja Ab,

Member of the Board of KJK Invest Oy,

Member of the Board of Aurejärvi Varainhoito Oy,

Member of the Board of UAB Malsena Plius,

Member of the Board of Bostads AB Blåklinten Oy,

Member of the Supervisory Council of 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 Salva Kindlustuse AS,

Chairman of the Supervisory Council of AS PRFoods,

Chairman of the Supervisory Council of JSC Rigas Dzirnānieks,

Chairman of the Board of Directors, KJK Management SA,

Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 Dec 2015: 24 590 shares (on Kaima Capital Eesti OÜ account)¹



VALDO KALM

Member of the Supervisory Council since 20 April 2012

Chairman of the Management Board of Port of Tallinn

Automation and telemechanics, Tallinn University of Technology

Baltika shares held on 31 Dec 2015: 0

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

AS BALTIKA MANAGEMENT BOARD



MEELIS MILDER

Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31 Dec 2015: 1,000,000 shares¹



MAIGI PÄRNIK-PERNIK

Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika's shares 31 Dec 2015: 0

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

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

Code	Definition	2015	2014
46421	Wholesale of clothing and footwear	32,817	35,196
46151	Brokerage of furniture, other products	510	577
46191	Wholesale of other products	174	163
70221	Management and support services	0	199
14131	Other sewing services	36	30
68201	Other rental revenue	7	4
Total		33,544	36,169

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