



Baltika Group

AS BALTIKA

Consolidated interim report for the first quarter of 2016

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Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2016 – 31 December 2016
Reporting period	1 January 2016 – 31 March 2016

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BRIEF DESCRIPTION OF BALTIKA GROUP

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo. Baltika employs a vertically integrated business model, which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics, wholesale and retail.

The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange that is part of the exchange group NASDAQ.

As at 31 March 2016 the Group employed 1,103 people (31 December 2015: 1,174).

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

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding as at 31 March 2016	Holding as at 31 Dec 2015
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 „Olivia“ ³	Russia	Retail	0%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%

¹Interest through a subsidiary.

²Interest through Baltman OÜ

³OOO „Olivia“ consolidation group, which also includes OOO „Plazma“ and OOO „Stelsing“ was sold 22 February 2016.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, FIRST QUARTER 2016

Baltika Group's first quarter resulted in net loss in the amount of 493 thousand euros. The result of last year same period was loss of 1,136 thousand euros and comparative figure of continued operations was loss of 783 thousand euros.

In connection with Baltika Group's exit from the Russian retail business, which represented a major line of business of the Group, the results of the Russian companies' retail are presented as discontinued operation.

In 2016 first quarter retail revenue was 10,505 thousand euros, decreasing 715 thousand euros i.e. 6% compared to same period last year. Wholesale and franchise revenue increased in first quarter by 11%. Sales growth is mainly due to Russian retail market transition to franchise and Monton collection entering German department store chain Peek & Cloppenburg and higher sales to Finnish wholesale partners. Baltika's international e-store Andmorefashion.com revenue was 252 thousand euros, decreasing 5% in the first quarter compared to same period last year.

Baltics first quarter retail sales were 8,428 thousand euros, decreasing by 10% compared to same period last year. In addition to the lower fashion goods, buying activity Baltika had a different selling approach than last year: planned inventories were on a lower level and company had less sale campaigns. Thus, Baltics retail revenue decreased compared to same period last year, but at the same time gross profit margin has improved substantially.

Group's gross profit margin in first quarter was 50.6%, which is 5.2 percentage points higher than last year same period margin 45.4% and gross profit in the first quarter was 5,311 thousand euros. In addition to lower mark-downs more efficient inventories management and weaker USA dollar helped to improve margin. At the same time, it is hard to keep high gross profit margin in the future due to intense competition in fashion industry.

Baltika's first quarter results confirm that decision to end operating Ukrainian and Russian high-risk loss-making retail markets and focusing on profit-making Baltics markets and developing other sales channels, was a right decision. Baltika Group's this year first quarter loss was smaller than latest years. In addition to exiting from Ukrainian and Russian markets the inventories, management process have been more efficient and decreased management costs. While markets' operating costs remain on last year level, head-office operating expense decreased 4% compared to same period last year.

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

- ✘ From February 1st 2016 Maigi Pärnik-Pernik continues working as a member of Management Board and is responsible for the finance functions and for the disclosure of information on the exchange.
- ✘ On 9th of February 2016 Baltika held a fashion show to launch spring-summer collection. The newest collections were shown in Baltika's headquarter and after the show collections were available in shops and in e-store.
- ✘ 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 463 thousand euros and payment schedule is agreed for 5 years, depending on Russian entities financial results.
- ✘ On 14th of March 2016 Lilian Nõlvak started working as a communication manager of AS Baltika. Previously Lilian worked as PR manager in Elion Ettevõtte AS (now known as Telia Eesti AS).
- ✘ Supervisory Council of AS Baltika decided to recall from the Management Board starting from 17 March 2016 Management Board member Kati Kusmin.

- Baltika ended representing Blue Inc London brand in Baltics states under the franchise agreement due to low sales efficiency and closed four stores in Estonia and in Latvia at the beginning of the year. Baltman store was opened as a replacement in one of the sales area in Tallinn Ülemiste shopping centre and in Riga Origo shopping centre, Bastion store was opened.
- Monton presented its Rio Olympics special collection for the first time to public on April 18th 2016 in Lennusadam.
- From May 2nd 2016 Kristel Soaru starts working as Sales and Marketing Director. Kristel has previously occupied different management positions at Baltika for 19 years, last position was the head of menswear collections and before that she was the head of Baltman brand. Before returning to Baltika Kristel was the purchase manager of TKM King, which is the holding company of Tallinna Kaubamaja Group's footwear trade store chains ABC King and SHU.

REVENUE

Management report presents only the results of continuing operations unless indicated otherwise.

Baltika's continued operations first quarter sales revenue decreased by 6% and was 10,505 thousand euros. Growth was largest with 11% in wholesale and franchise. Retail sales were 8,428 thousand euros, decrease of 10% compared to prior year same period.

Revenue by activity

Continued operations

EUR thousand	1 Q 2016	1 Q 2015	+/-
Retail	8,428	9,335	-10%
Wholesale & Franchise	1,784	1,602	11%
E-com sales	252	266	-5%
Other	41	17	141%
Total	10,505	11,220	-6%

Revenue including discontinued operations

EUR thousand	1 Q 2016	1 Q 2015	+/-
Retail ¹	8,428	10,440	-19%
Wholesale & Franchise	1,783	1,602	11%
E-com sales	252	266	-5%
Other	41	17	141%
Total	10,505	12,325	-15%

¹2015 retail revenue includes Russian market sales

Stores and sales area

Group had 130 stores as at 31 March 2016, among which 36 franchise stores. Two stores were open under new concept in February: Baltman store in Ülemiste shopping centre in Estonia and Bastion store in Riga Origo center, in Latvia. One new store was added to franchise portfolio – new Monton store was opened at the beginning of March in Ukraine. Russian franchise store portfolio increased due to local retail transition to franchise.

Stores by market

	31 March 2016	31 March 2015	Average area change*
Estonia	44	41	7%
Lithuania	29	28	3%
Latvia	21	22	-6%
Ukraine ¹	15	14	4%
Russia ²	13	5	457%

Belarus ³	2	2	0%
Spain ³	6	5	21%
Total stores	130	117	
Total sales area, sqm	23,891	20,868	15%

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

¹Operating franchise shops in Ukraine are with a total sales area of 2,784 m².

²Russian franchise shops are with a total sales area of 2,809 m². Eight franchise shops in Russia with a total sales area of 2,281 m² are a part of discontinued operations in comparative figures.

³Franchise shops in Belarus and Spain are with a total sales area of 1,215 m².

Retail

First quarter continued operations retail revenue decreased by 10% compared to same period in previous year and the total amount was 8,428 thousand euros.

All three Baltic states sales decreased in the first quarter. Largest decrease compared to prior year same period was in Latvia, were sales decreased by 348 thousand euros i.e. 14%. One of the main reasons behind the sales decrease in Latvia are stores that were closed for renovation, for example Monton store in Riga Spice shopping centre.

Retail sales by market

EUR thousand	1 Q 2016	1 Q 2015	+/-	Share
Estonia	3,898	4,169	-7%	46%
Lithuania	2,360	2,648	-11%	28%
Latvia	2,170	2,518	-14%	26%
Total	8,428	9,335	-10%	100%
Russia*	0	1,105	-100%	-

*Discontinued operations

While sales revenue decreased most in Latvia then its sales efficiency decrease was the lowest. Latvia was the only retail market where average sales area decreased (-6%) compared to last year first quarter.

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

	1 Q 2016	1 Q 2015	+/-
Estonia	177	202	-12%
Lithuania	140	161	-13%
Latvia	192	210	-8%
Total	168	190	-12%

Brands

Bastion brand showed again growth in the first quarter compared to last year same period. Owing to the larger sales area Bastion sales grew 6%. Other brands sales decreased, largest decrease came from sales of Mosaic brand.

Retail revenue by brand

EUR thousand	1 Q 2016	1 Q 2015	+/-	Share
Monton	3,391	3,662	-7%	40%
Mosaic	2,547	3,135	-19%	30%
Baltman	1,036	1,058	-2%	12%
Ivo Nikkolo	985	993	-1%	12%
Bastion	382	359	6%	5%

Other	87	128	-32%	1%
Total	8,428	9,335	-10%	100%

Sales through other channels

Sales result of wholesale and franchise was 1,784 thousand euros in 2016 first quarter, an increase compared to previous year same period of 182 thousand euros i.e. 11%. Increase in volume is mainly due to Russian retail market transition to franchise and Monton collection entering German department store chain Peek & Cloppenburg and higher sales to Finnish wholesale partners. With the Russian retail stores transition to franchise the number of franchise stores has increased to 36, forming 28% of total stores portfolio.

Sales of e-shop decreased in the first quarter by 5% and amounted to 252 thousand euros. In total the orders were made from 29 countries. Countries with largest sales are Estonia, Latvia, Lithuania, Russia and Finland. The best-selling brands in e-store were Monton and Mosaic. Number of e-store visitors increased 12% compared to last year same period, continuing as successful channel for pre-shopping.

OPERATING EXPENSES AND NET PROFIT

Company gross profit margin in the first quarter was 50.6% that is 5.2 percentage points higher than in the same period last year margin 45.4%. Gross profit margin has improved due to better purchasing price and lower mark down. Quarterly gross profit was 5,311 thousand euros.

Distribution expense in first quarter was 5,001 thousand euros, which is on the same level as last year. While due to more efficient processes head-office distribution expense has decreased by 2% i.e. 21 thousand euros, then in Baltics, retail market the distribution expense is on the same level as last year.

In first quarter general and administrative expense was 669 thousand euros, decreasing by 9% compared to the same period last year. More efficient processes with smaller amount of staff and effective cost control amounted to 67 thousand euros smaller expense compared to the same period last year.

Distribution and general expense ratio to revenue in first quarter of 2016 was 54%. The expense ratio has increased compared to same period last year due to decrease in sales revenue. Head-office costs have decreased by 4% and Baltic market operating expense has stayed on last year level.

Other operating net expense in first quarter was 25 thousand euros and operating loss was 384 thousand euros. Compared to the same level last year operating loss has decreased by 282 thousand euros, last year comparative figure from continued operations is a loss in amount of 666 thousand euros.

Net financial expense in the first quarter was 109 thousand euros, which is 8 thousand euros less than in the same period last year.

The first quarter resulted in net loss in the amount of 493 thousand euros, which is 290 thousand euros better result than the previous year continued operations result. 2015 same period net loss was 1,136 thousand euros and comparative result from continued operations was loss in amount of 783 thousand euros.

FINANCIAL POSITION

As at 31 March 2016, Baltika Group inventories totalled 10,548 thousand euros, increasing 124 thousand euros compared to last year-end. Compared to the same seasonal position on 31 March last year, the inventories have decreased by 3,033 thousand euros, from which decrease in amount of 808 thousand euros is from exiting Russian retail market. The biggest decrease, 2,620 thousand euros i.e. 24% was in finished goods and goods purchased for resale inventories. Fabric and accessories inventories have decreased by 204 thousand euros (31 March 2015: 1,782 thousand euros) and prepayments to suppliers have decreased by 212 thousand euros (31 March 2015: 649 thousand euros).

As at 31 March 2016 the total borrowings amounted to 8,012 thousand euros, which signifies together with the usage of overdraft facility increase of 1,691 thousand euros compared to the last year-end (31 December 2015: 6,321 thousand euros).

In the first quarter purchase of fixed assets was made in amount of 318 thousand euros and depreciation was 316 thousand euros. Property, plant and equipment and intangible assets at residual value decreased by 19 thousand euros compared to last year-end and were 4,835 thousand euros.

The first quarter cash-flow was -1,629 thousand euros (I quarter 2015: -938 thousand euros). Input to the investment activity was 309 thousand euros (I quarter 2015: 207). Bank loan repayments were made in amount of 163 thousand euros. Group's first quarter total cash flow was -208 thousand euros (I quarter 2015: -281 thousand euros).

As at 31 March 2016 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 7,822 thousand euros, which is 1,923 thousand euros more than at the end of last year. The net debt to equity ratio was 182% as at 31 March 2016 (31 December 2015: 123%). The ratio has deteriorated due to seasonal increase in borrowings (usage of overdraft) and quarter net loss reducing equity.

PEOPLE

As at 31 March 2016 Baltika Group employed 1,103 people that is 71 people less than as at 31 December 2015 (1,174): 525 (31.12.2015: 601, among who 79 are Russian retail market employees) in the retail system, 392 (31.12.2015: 387) in manufacturing and 186 (31.12.2015: 186) at the head office and logistics centre. The 2016 three months' average number of staff in Group was 1,110 (I quarter 2015 with Russian retail market staff: 1,174).

Starting from February 1st 2016 Maigi Pärnik-Pernik continues to fulfil the tasks of Management Board member. On January 30th 2015 the Supervisory Board 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 February 1st 2016 Management Board member responsible for the finance function and for the disclosure of information on the exchange is again Maigi Pärnik-Pernik.

On 14th of March 2016 Lilian Nõlvak started working as a communication manager of AS Baltika. Previously Lilian worked as PR manager in Elion Ettevõtte AS (now known as Telia Eesti AS).

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

From May 2nd 2016 Kristel Sooaru starts working as Sales and Marketing Director. Kristel has previously occupied different management positions at Baltika for 19 years, last position was the head of menswear collections and before that she was the head of Baltman brand. Before returning to Baltika Kristel was the purchase manager of TKM King, which is the holding company of Tallinna Kaubamaja Group's footwear trade store chains ABC King and SHU.

Baltika Group continued operations employees remuneration expense in first quarter amounted 2,552 thousand euros (I quarter 2015: 2,662 thousand). The accrued remuneration with taxes, of the member of the Supervisory Council and Management Board totalled 75 thousand euros (2015: 84 thousand euros).

KEY FIGURES OF THE GROUP (I QUARTER 2016)

	3M and 31 March 2016	3M and 31 March 2015¹	3M and 31 March 2015	3M and 31 March 2014²	3M and 31 March 2013	3M and 31 March 2012
Sales activity key figures						
Revenue (EUR thousand)	10,505	11,220	12,325	13,447	13,186	12,643
Retail sales (EUR thousand)	8,428	9,335	10,440	12,385	12,289	11,531
Share of retail sales in revenue	80.2%	83.2%	84.7%	92.1%	93.2%	91.2%
Share of exports in revenue	58.2%	58.9%	62.6%	63.1%	68.5%	69.8%
Number of stores in retail	94	91	102	123	112	108
Number of stores	130	117	128	125	112	108
Sales area at the end of period (sqm)	17,133	16,608	19,722	23,355	22,193	21,807
Number of employees (end of period)	1,103	1,123	1,216	1,334	1,299	1,316
Gross margin	50.6%	45.4%	44.5%	47.1%	51.3%	51.1%
EBITDA (EUR thousand)	-59	-389	-718	-2,065	-154	-215
Net profit (EUR thousand)	-493	-783	-1,136	-2,482	-603	-1,044
EBITDA margin	-0.6%	-3.5%	-5.8%	-15.4%	-1.2%	-1.7%
Operating margin	-3.7%	-5.9%	-8.3%	-17.8%	-4.0%	-6.2%
EBT margin	-4.7%	-7.0%	-9.2%	-18.4%	-4.6%	-8.1%
Net margin	-4.7%	-7.0%	-9.2%	-18.5%	-4.6%	-8.2%
Inventory turnover	1.84	1.96	2.02	2.14	2.26	2.89
Other ratios³						
Current ratio	1.2	1.8	1.8	1.5	1.8	1.2
Net gearing ratio	182.1%	98.8%	98.8%	64.0%	65.1%	209.8%
Return on equity	-8.2%	-12.8%	-12.8%	-23.1%	-6.5%	-57.2%
Return on assets	-2.2%	-4.8%	-4.8%	-10.2%	-2.3%	-15.4%

¹In connection with Baltika's exit from the Russian retail business, the sales activity key figures of the first-quarter of 2015 presents only results of continued operations.

²2014 includes results from discontinued operations.

³Other ratios include impact of continued and discontinued operations.

Definitions of key ratios

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

EBITDA margin = EBITDA/Revenue

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

Operating margin = Operating profit/Revenue

EBT margin = Profit before income tax/Revenue

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

Current ratio = Current assets/Current liabilities

Inventory turnover = Cost of goods sold/Average inventories*

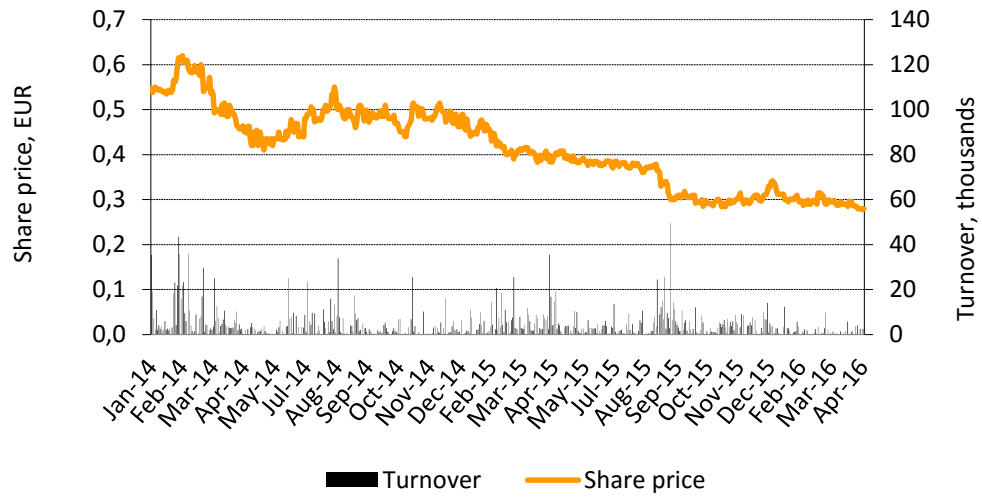
Net gearing ratio = (Interest-bearing liabilities-cash and cash equivalents)/Equity

Return on equity (ROE) = Net profit /Average equity*

Return on assets (ROA) = Net profit /Average total assets*

*Based on 12-month average

SHARE PRICE AND TURNOVER



MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

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



Meelis Milder
Chairman of the Management Board
29 April 2016



Maigi Pärnik-Pernik
Member of the Management Board
29 April 2016

INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the first quarter of 2016 as presented on pages 12-32.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements give a true and fair view of the assets and liabilities of the Group comprising of the parent company and other Group entities as well as its financial position, its results of the operations and the cash flows of the Group; and its cash flows;
3. the Group is going concern.



Meelis Milder
Chairman of the Management Board
29 April 2016



Maigi Pärnik-Pernik
Member of the Management Board
29 April 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 March 2016	31 Dec 2015
ASSETS			
Current assets			
Cash and cash equivalents	3	190	398
Trade and other receivables	4	1,993	1,607
Inventories	5	10,548	10,424
Total current assets		12,731	12,429
Non-current assets			
Deferred income tax asset		234	234
Other non-current assets	4	613	584
Property, plant and equipment	6	2,970	2,910
Intangible assets	7	1,865	1,944
Total non-current assets		5,682	5,672
TOTAL ASSETS		18,413	18,101
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	4,745	3,009
Trade and other payables	9,10	5,770	6,709
Total current liabilities		10,515	9,718
Non-current liabilities			
Borrowings	8	3,267	3,312
Other liabilities	9	336	283
Total non-current liabilities		3,603	3,595
TOTAL LIABILITIES		14,118	13,313
EQUITY			
Share capital at par value	11	8,159	8,159
Share premium		496	496
Reserves	11	1,182	1,182
Retained earnings		-5,049	1,310
Net loss for the period		-493	-6,359
TOTAL EQUITY		4,295	4,788
TOTAL LIABILITIES AND EQUITY		18,413	18,101

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	1Q 2016	1Q 2015
Continuing operations			
Revenue	12,13	10,505	11,220
Cost of goods sold	14	-5,194	-6,131
Gross profit		5,311	5,089
Distribution costs	15	-5,001	-5,012
Administrative and general expenses	16	-669	-736
Other operating income (-expense)	17	-25	-7
Operating profit		-384	-666
Finance income	18	0	0
Finance costs	18	-109	-117
Profit (loss) before income tax		-493	-783
Income tax expense		0	0
Net profit from continuing operations		-493	-783
Net loss for the period from discontinued operations	21	0	-353
Net profit (loss) for the period		-493	-1,136
Basic earnings per share from net loss for the period, EUR	19	-0.01	-0.03
From continuing operations		-0.01	-0.02
From discontinued operations		0.00	-0.01
Diluted earnings per share from net loss for the period, EUR	19	-0.01	-0.03
From continuing operations		-0.01	-0.02
From discontinued operations		0.00	-0.01

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	1 Q 2016	1 Q 2015
Net loss for the period	-493	-1,136
Other comprehensive loss		
Items that subsequently might be classified to profit or loss		
Currency translation differences	0	357
Total comprehensive loss	-493	-779
Total comprehensive loss attributable to equity shareholders arises from:		
Continuing operations	-493	-783
Discontinued operations	0	4

CONSOLIDATED CASH FLOW STATEMENT

	Note	1Q 2016	1Q 2015
Operating activities			
Continuing operations:			
Operating loss		-384	-666
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	14-16	316	285
Gain (loss) from sale, impairment of PPE, non-current assets, net		7	6
Other non-monetary expenses		-62	-385
Changes in working capital:			
Change in trade and other receivables	4	-386	-390
Change in inventories	5	-124	-307
Change in trade and other payables	9	-939	523
Interest paid		-56	-68
Income tax paid		-1	-8
Discontinued operations		0	72
Net cash generated (used in) from operating activities		-1,629	-938
Investing activities			
Continuing operations:			
Acquisition of property, plant and equipment, intangibles	6, 7	-309	-265
Proceeds from disposal of PPE		0	61
Discontinued operations		0	-3
Net cash used in investing activities		-309	-207
Financing activities			
Repayments of borrowings	8	-163	-274
Change in bank overdraft	8	1,923	1,153
Repayments of finance lease		-30	-15
Net cash used in financing activities		1,730	864
Total cash flows		-208	-281
Cash and cash equivalents at the beginning of the period	3	398	710
Effect of exchange gains on cash and cash equivalents		0	21
Cash and cash equivalents at the end of the period	3	190	450
Change in cash and cash equivalents		-208	-260

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total
Balance as at 31 Dec 2014	8,159	809	1,182	1,310	-2,723	8,737
Profit for the period	0	0	0	-1,136	0	-1,136
Other comprehensive income	0	0	0	0	357	357
Total comprehensive loss	0	0	0	-1,136	357	-779
Equity-settled share-based transactions (Note 15)	0	32	0	0	0	32
Balance as at 31 March 2015	8,159	841	1,182	174	-2,366	7,990
Balance as at 31 Dec 2015	8,159	496	1,182	-5,049	0	4,788
Loss for the period	0	0	0	-493	0	-493
Total comprehensive loss	0	0	0	-493	0	-493
Balance as at 31 March 2016	8,159	496	1,182	-5,542	0	4,295

NOTES TO CONSOLIDATED INTERIM REPORT

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

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

The Group's condensed consolidated interim report for the first quarter ended 31 March 2016 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2015, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015. New and revised standards and interpretations effective from 1 January 2016 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

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

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

NOTE 2 Financial risks

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

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

Market risk

Foreign exchange risk

In 2016 and 2015 all continuing operations sales were made in euros. In 2015 sales was conducted in RUB only in discontinued Russian market. The majority of raw materials used in production are acquired from European Union, goods purchased for resale outside European Union. The major foreign currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled mainly in euros. 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. The changes in average foreign currency rates against euro in the reporting period were following:

Average currencies	1 Q 2016	1 Q 2015
RUB (Russian rouble)	-16.23%	-47.70%
USD (US dollar)	2.10%	17.78%

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

Balance-sheet date rates (31 March 2016; 31 Dec 2015)	
USD (US dollar)	-4.57%

Foreign exchange risk arises from the following in foreign currency that is not euro, cash and bank (Note 3), trade receivables (Note 4) and trade payables (Note 9).

The Group's borrowings are denominated in euros, therefore no currency risk is assumed.

No instruments were used to hedge foreign currency risk in 2016 and 2015. The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency. Additionally the Group uses the possibilities to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

Interest rate risk

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

The Group's interest rate risk arises mainly from 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 or Eonia and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

From non-current borrowings as at 31 March 2016 and 31 December 2015 3,000 thousand were fixed interest rate and 267 thousand euros (31 December 2015 312 thousand euros) were subject to a floating 6 month interest rate based on Euribor. The Group analyses its interest rate exposure on a regular basis. Various scenarios for reducing risks is considered. These scenarios taken into consideration include refinancing, renewal of existing positions and alternative financing.

The Group has not used during current or previous reporting period no hedging instruments to manage the risks arising from fluctuations in interest rates.

Price risk

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

Credit risk

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

Cash and cash equivalents

For banks and financial institutions, mostly independently rated parties with a minimum rating of "A" are accepted as long-term counterparties in Baltic states.

Trade receivables

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.

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

As at 31 March 2016 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted to 2,046 thousand euros (31 December 2015: 1,770 thousand euros) on a net basis after the allowances made previously.

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, bond issues, monitoring the terms of receivables and purchase contracts. Group's current account/overdraft facility is in use for more flexible management of liquid assets, enabling some Group companies to use the Group's resources up to the limit established by the Parent company. The unused limit of Group's overdraft facilities as at 31 March 2016 was 713 thousand euros (31 December 2015: 2,574 thousand euros).

Financial liabilities by maturity at 31 March 2016

	Carrying amount	Undiscounted cash flows ¹		Total
		1-12 months	1-5 years	
Loans (Note 8) ²	4,566	4,695	0	4,695
Finance lease liabilities (Note 8)	446	184	281	465
Convertible bonds (Note 8)	3,000	0	3,572	3,572
Trade payables (Note 9)	2,860	2,860	0	2,860
Other financial liabilities	56	56	0	56
Total	10,928	7,795	3,853	11,648

Financial liabilities by maturity at 31 December 2015

	Carrying amount	Undiscounted cash flows ¹		Total
		1-12 months	1-5 years	
Loans (Note 8) ²	2,806	2,880	0	2,880
Finance lease liabilities (Note 8)	491	188	328	516
Convertible bonds (Note 8)	3,024	24	3,624	3,648
Trade payables (Note 9)	3,640	3,640	0	3,640
Other financial liabilities	2	2	0	2
Total	9,963	6,734	3,952	10,686

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 payable based on the contractual date of payment.

Operational risk

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

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

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

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

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

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

Capital risk management

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

The Group monitors capital on the basis of net gearing ratio. 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 the end of reporting period the ratio was 182%. In the end of 2015 the ratio was 123%. The worsening of the ratio is influenced by the seasonality of the first quarter and the increase in borrowings related to it (increase in usage of overdraft).

Net gearing ratio

	31 March 2016	31 Dec 2015
Interest carrying borrowings (Note 8)	8,012	6,297
Cash and bank (Note 3)	-190	-398
Net debt	7,822	5,899
Total equity	4,295	4,788
Net gearing ratio	182%	123%

Fair value

The Group estimates that the fair values of the assets and liabilities measured in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 March 2016 and 31 December 2015.

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

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

NOTE 3 Cash and cash equivalents

	31 March 2016	31 Dec 2015
Cash at hand	98	102
Cash at bank and overnight deposits	92	296
Total	190	398

All cash and cash equivalents are in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables		31 March 2016	31 Dec 2015
Trade receivables, net		1,433	1,186
Other prepaid expenses		218	189
Tax prepayments and tax reclaims, thereof		333	213
Value added tax		333	209
Other taxes		0	4
Other current receivables		9	19
Total		1,993	1,607
Long-term assets			
Non-current lease prepayments		278	278
Other long-term receivables		335	306
Total		613	584

All trade and other receivables are in euros.

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

31 March 2016	Baltic region	Eastern European region	Other regions	Total
Not due	423	635	82	1,140
Up to 1 month past due	9	0	69	78
1-3 months past due	0	0	146	146
3-6 months past due	10	0	43	53
Over 6 months past due	0	0	16	16
Total	442	635	356	1,433
31 Dec 2015	Baltic region	Eastern European region	Other regions	Total
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

NOTE 5 Inventories

	31 March 2016	31 Dec 2015
Fabrics and accessories	1,578	1,790
Work-in-progress	82	82
Finished goods and goods purchased for resale	8,451	8,588
Allowance for impairment of finished goods and goods purchased for resale	0	-500
Prepayments to suppliers	437	464
Total	10,548	10,424

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments, PPE not in yet in use	Total
31 December 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	201	13	257	3	474
Disposals	-1	-5	-2	0	-8
Depreciation	-64	-59	-115	0	-238
Currency translation differences	13	7	8	0	28
31 March 2015					
Acquisition cost	2,434	4,922	5,407	3	12,766
Accumulated depreciation	-1,502	-4,358	-3,755	0	-9,615
Net book amount	932	564	1,652	3	3,151
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
Additions	171	13	134	0	318
Disposals	0	0	-9	0	-9
Reclassification	0	0	0	-1	-1
PPE impairment	-7	0	-4	0	-11
Depreciation	-77	-41	-119	0	-237
31 March 2016					
Acquisition cost	2,608	4,732	4,594	0	11,934
Accumulated depreciation	-1,614	-4,293	-3,057	0	-8,964
Net book amount	994	439	1,537	0	2,970

Information about discontinued operations in Note 21.

NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
31 December 2014					
Acquisition cost	2,132	1,243	28	1,495	4,898
Accumulated depreciation	-1,425	-293	0	0	-1,718
Net book amount	707	950	28	1,495	3,180
Additions	22	0	1	0	23
Amortisation	-57	-11	0	0	-68
Currency translation differences	0	0	0	157	157
31 March 2015					
Acquisition cost	2,168	1,243	29	1,652	5,092
Accumulated depreciation	-1,496	-304	0	0	-1,800
Net book amount	672	939	29	1,652	3,292

31 December 2015					
Acquisition cost	2,261	1,243	0	509	4,013
Accumulated depreciation	-1,732	-337	0	0	-2,069
Net book amount	529	906	0	509	1,944
Amortisation	-68	-11	0	0	-79
31 March 2016					
Acquisition cost	2,261	1,243	0	509	4,013
Accumulated depreciation	-1,800	-348	0	0	-2,148
Net book amount	461	895	0	509	1,865

NOTE 8 Borrowings

	31 March 2016	31 Dec 2015
Current borrowings		
Current portion of bank loans	1,217	1,380
Overdraft	3,349	1,426
Current portion of finance lease liabilities	179	179
Other short term borrowings	0	24
Total	4,745	3,009
Non-current borrowings		
Non-current finance lease liabilities	267	312
Convertible bonds, share options (Note 11)	3,000	3,000
Total	3,267	3,312
Total borrowings	8,012	6,321

During the reporting period, the Group made loan repayments in the amount of 163 thousand euros (2015: 274 thousand euros). Group's overdraft facilities with the banks were used in the amount of 3,349 thousand euros as at 31 March 2016 (31 December 2015: 1,426 thousand euros).

Interest expense of all interest carrying borrowings of the reporting period amounted to 108 thousand euros, including 44 thousand euros interest expense from the convertible bonds of related party (2015: 117 thousand euros, including 41 thousand euros interest expense from the loan of related party).

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

Changes in 2015

In April an annex under an existing facility agreement was signed, which prolonged overdrafts's 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.

Interest carrying loans and bonds of the Group as at 31 March 2016

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR vői EONIA +4.6%	4,566
J-Bonds (Note 11)	6.50%	3,000
Total		7,566

Interest carrying loans and bonds of the Group as at 31 December 2015

	Average risk premium	Carrying amount
	EURIBOR vői EONIA	
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	+4.6%	2,806
Borrowings at fixed interest rate (Note 21)	6.50%	3,000
Total		5,806

Bank loans set certain level to financial ratios for the Group. As at 31 December 2015 Baltika, was not compatible with some of the terms and conditions of the loan agreement, but the bank has confirmed that the loan will not become due and payable prematurely.

NOTE 9 Trade and other payables

	31 March 2016	31 Dec 2015
Current liabilities		
Trade payables	2,860	3,640
Tax liabilities, thereof	1,345	1,570
Personal income tax	217	229
Social security taxes and unemployment insurance premium	525	559
Value added tax	532	744
Corporate income tax liability	1	0
Other taxes	70	38
Payables to employees ¹	1,059	995
Other accrued expenses	56	49
Other current payables	47	71
Customer prepayments	21	2
Total	5,388	6,327

Non-current liabilities

Other liabilities	336	283
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¹Payables to employees consist of accrued wages, salaries and vacation reserve. Information about the liabilities to related parties is in Note 20.

Trade payables and other accrues expenses in denominated currency

	31 March 2016	31 Dec 2015
EUR (euro)	2,232	3,618
USD (US dollar)	684	22
Total	2,916	3,640

NOTE 10 Provisions

	31 March 2016	31 Dec 2015
Client bonus provision	370	370
Other provision	12	12
Total	382	382

Short description of the provision

Baltika loyal clients program "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

The provision is formed using the assumptions by the Management as it is described in the Group's latest consolidated annual financial statements for the year ended 31 December 2015. As at 31 March 2016 and 31 December 2015 the provision is recognised in the amount of 370 thousand euros.

NOTE 11 Equity

Share capital and reserves

	31 March 2016	31 Dec 2015
Share capital	8,159	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182

As at 31 March 2016 and 31 December 2015, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for. As at 31 March 2016 and 31 December 2015 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange.

Convertible bonds and share option program

	Issue date	Share subscription period	Number of convertible bonds 31 March 2015	Number of convertible bonds 31 Dec 2014
J-Bond	28 July 2014	15 July 2017 – 30 July 2017	600	600

J-bonds

On 28 April 2014 the Annual General Meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 3 million euros. Decision was to issue 600 convertible bonds with the issuance price of 5,000 euros. The three-year convertible bonds carry an annual interest rate of 6.5% and give its owner the right to subscribe for 10,000 Baltika's shares at 0.50 euros subscription price.

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

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.

Shareholders as at 31 March 2016

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	5,728,872	14.04%
3. BMIG OÜ*	4,750,033	11.64%
4. SKANDINAVISKA ENSKILDA BANKEN S.A.	3,407,305	8.35%
5. Svenska Handelsbanken clients	1,390,000	3.41%
6. Members of Management and Supervisory Boards 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	10,594,116	25.98%
Total	40,794,850	100.00%

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 S.A.	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,458,000	3.57%
6. Members of Management and Supervisory Boards 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%

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



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

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

NOTE 12 Segments

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

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

-  Baltic region consists of operations in Estonia, Latvia and Lithuania;
-  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 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. The comparative figures of 2015 have been 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
1 Quarter 2016 and as at 31 March 2016			
Revenue (from external customers)	8,428	2,077	10,505
Segment profit (loss) ²	614	339	953
Incl. depreciation and amortisation	-201	-19	-220
Inventories of segments	4,673	0	4,673
1 Quarter 2015 and as at 31 March 2015			
Revenue (from external customers)	9,335	1,885	11,220
Segment profit (loss) ²	882	278	1,160
Incl. depreciation and amortisation	-166	-20	-186
Inventories of segments	5,036	0	5,036

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 (loss) is the segment operating profit (loss).

Reconciliation of segment profit to consolidated operating profit

	1 Q 2016	1 Q 2015
Total segment profit	953	1,160
Unallocated expenses ¹ :		
Costs of goods sold and distribution costs	-643	-1,083
Administrative and general expenses	-669	-736
Other operating income (expenses), net	-25	-7
Operating profit (loss)	-384	-666

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

Reconciliation of segment inventories to consolidated inventories

	31 March 2016	31 Dec 2015	31 Mar 2014
Total inventories of segments	4,673	4,465	5,036
Discontinued operations inventories	0	0	808
Inventories in Parent company and production company	5,875	5,959	7,737
Inventories on statement of financial position	10,548	10,424	13,581

NOTE 13 Revenue

	1 Q 2016	1 Q 2015
Sale of goods in retail channel	8,428	9,335
Sale of goods in wholesale and e-commerce channel	2,036	1,868
Other sales	41	17
Total	10,505	11,220

Sales by geographical (client location) areas

	1 Q 2016	1 Q 2015
Estonia	4,396	4,608
Lithuania	2,412	2,674
Latvia	2,314	2,647
Russia	404	275
Ukraine	351	309
Finland	257	247

Spain	196	312
Germany	71	9
Belarus	68	106
Other countries	36	33
Total	10,505	11,220

NOTE 14 Cost of goods sold

	1 Q 2016	1 Q 2015
Materials and supplies	4,513	5,222
Payroll costs in production	879	933
Operating lease expenses	168	169
Other production costs	109	106
Depreciation of assets used in production (Note 6,7)	25	31
Change in allowance for inventories	-500	-330
Total	5,194	6,131

NOTE 15 Distribution costs

	1 Q 2016	1 Q 2015
Payroll costs	2,219	2,341
Operating lease expenses	1,578	1,507
Advertising expenses	341	281
Depreciation and amortisation (Note 6,7)	260	226
Fuel, heating and electricity costs	141	141
Municipal services and security expenses	90	74
Fees for card payments	51	73
Travel expenses	47	67
Information technology expenses	49	37
Communication expenses	26	30
Consultation and management fees	12	50
Other sales expenses ¹	187	185
Total	5,001	5,012

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

NOTE 16 Administrative and general expenses

	1 Q 2016	1 Q 2015
Payroll costs	319	336
Operating lease expenses	112	113
Information technology expenses	57	65
Bank fees	40	30
Depreciation and amortisation (Note 6,7)	31	27
Management, juridical-, auditor's and other consulting fees	21	49
Fuel, heating and electricity expenses	20	32
Other administrative expenses ¹	69	84
Total	669	736

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

NOTE 17 Other operating income and expenses

	1 Q 2016	1 Q 2015
Gain (-loss) from sale, impairment of PPE	-7	7
Other operating income	3	2
Foreign exchange gain (-loss)	-18	-13
Other operating expenses	-3	-3
Total	-25	-7

NOTE 18 Finance income and costs

	1 Q 2016	1 Q 2015
Interest cost	-108	-117
Other finance costs	-1	0
Total	-109	-117

NOTE 19 Earnings per share

Basic earnings per share		1 Q 2016	1 Q 2015
Weighted average number of shares (thousand)	pcs	40,795	40,795
Net loss from continuing operations		-493	-783
Net profit (loss) from discontinued operations		0	-353
Basic earnings per share	EUR	-0.01	-0.03
Basic earnings per share (continuing operations)	EUR	-0.01	-0.02
Basic earnings per share (discontinued operations)	EUR	0.00	-0.01
Diluted earnings per share	EUR	-0.01	-0.03
Diluted earnings per share (continuing operations)	EUR	-0.01	-0.02
Diluted earnings per share (discontinued operations)	EUR	0.00	-0.01





There were no dilutive instruments in the reporting period. In case, the Group had made profit, potentially dilutive could have been J-bonds and share option program.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in the reporting period was 0.30 euros (2015: 0.43 euros).

NOTE 20 Related parties

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

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

-  owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 11);
-  members of the Management Board and the Supervisory Council¹;
-  close family members of the persons stated above;
-  entities under the control or significant influence of the members of the Management Board and Supervisory Council.

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

	1 Q 2016		1 Q 2015	
	Purchases	Sales	Purchases	Sales
Goods	0	0	0	3
Services	3	0	162	0
Total	3	0	162	3

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

Balances with related parties

	31 March 2016	31 Dec 2015
Other current loans and interests (Note 8, 9)	2,836	2,804
Trade payables (Note 9)	0	17
Payables to related parties total	2,836	2,821

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

All transactions in 2016 as well as in 2015 reporting periods and balances with related parties as at 31 March 2016 and 31 December 2015 were with entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members. As at 31 March 2016 and 31 December 2015 the balances from borrowings, interests are partly with counterparty, who is also an owner that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	1 Q 2016	1 Q 2015
Salaries of the members of the Management Board	71	79
Remuneration of the members of the Supervisory Council	4	5
Total	75	84

As at 31 March 2016 there were two Management Board Members and as at 31 December 2015 there were three Management Board Members. As at 31 March 2016 and 31 December 2015 there were five Supervisory Council Members.

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

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

Convertible bonds (J-bonds) are partly issued to related parties (Note 11).

In 2015 share option program was issued to the Management Board members.

NOTE 21 Discontinued operations
Changes in 2016

AS Baltika decided in the end of 2015 to exit Russian retail market to reduce economic and political risks. In the 2015 fourth quarter, prior to sales transaction, AS Baltika classified all assets of the disposal group as held for sale and re-measured to nil.

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.

The price received for the Russian entities is 463 thousand euros and payment schedule is agreed for 5 years. Receiving the amount depends on Russian entities financial results and therefore the receivable has not been recorded.

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 period report comparative period.

An extract of the revenue and expenses of discontinued operation

	1Q 2016	1Q 2015
Discontinued operation		
Revenue	0	1,104
Expenses	0	-1,452
Other operating expense and income tax	0	-5
Net loss for the reporting period	0	-353

Consolidated cash-flow of the discontinued operation

	1Q 2016	1Q 2015
Net cash used in operating activities	0	72
Net cash used in investing activities	0	-3
Total cash flows	0	69
Cash and cash equivalents at the beginning of the period	0	83
Effect of exchange gains on cash and cash equivalents	0	0
Cash and cash equivalents at the end of the period	0	152
Change in cash and cash equivalents	0	69

AS BALTIKA SUPERVISORY COUNCIL



JAAKKO SAKARI MIKAEL SALMELIN

Member of the Supervisory Council since 21.06.2010

Partner, KJK Capital Oy

Master of Science in Finance, Helsinki School of Economics

Other assignments:

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

Member of the Board of Directors, KJK Management SA,

Member of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 March 2016: 0



TIINA MÕIS

Member of the Supervisory Council since 03.05.2006

Chairman of the Management Board of AS Genteel

Degree in Economical Engineering, Tallinn University of Technology

Other assignments:

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

Member of Estonian Accounting Standards Board.

Baltika shares held on 31 March 2016: 977,837 shares (on AS Genteel account)



REET SAKS

Member of the Supervisory Council since 25.03.1997

Attorney at Raidla Ellex Law Office

Degree in Law, University of Tartu

Baltika shares held on 31 March 2016: 0



LAURI KUSTAA ÄIMÄ

Member of the Supervisory Council since 18.06.2009

Managing Director of Kaima Capital Oy

Master of Economics, University of Helsinki

Other assignments:

Member of the Supervisory Council of AS Tallink Grupp,

Member of the Board of Oy Tallink Silja Ab,

Member of the Board of KJK Invest Oy,

Member of the Board of Aurejärvi Varainhoito Oy,

Member of the Board of UAB Malsena Plius,

Member of the Board of Bostads AB Blåklinten Oy,

Member of the Supervisory Council of 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 Dzirnāvnieks,

Chairman of the Board of Directors, KJK Management SA,

Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 March 2016: 24 590 shares (on Kaima Capital Eesti OÜ account)



VALDO KALM

Member of the Supervisory Council since 20.04.2012

Chairman of the Board of Port of Tallinn

Automation and telemechanics, Tallinn University of Technology

Baltika shares held on 31 March 2016: 0

AS BALTIKA MANAGEMENT BOARD



MEELIS MILDER

Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31 March 2016: 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 shares 31 March 2016: 0

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