AS BALTIKA

Consolidated interim report for the second quarter and 6 months of 2016

Commercial name	AS Baltika
Commercial registry number	10144415
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E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2016 – 31 December 2016
Reporting period	1 January 2016 – 30 June 2016

CONTENTS

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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 30 June 2016 the Group employed 1,070 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 30 June 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%

[1]Interest through a subsidiary.
[2]Interest through Baltman OÜ
[3]OOO “Olivia” consolidation group, which also includes OOO „Plazma“ and OOO „Stelsing“ was sold 22 February 2016.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, SECOND QUARTER AND 6 MONTHS OF 2016

Baltika Group's second quarter resulted in net profit in the amount of 346 thousand euros. The result of last year same period was profit of 67 thousand euros and comparative figure of continued operations was profit of 127 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 2015 results of the Russian companies' retail are presented as discontinued operation.

In the second quarter of 2016 Group's revenue was 11,818 thousand euros, decreasing 261 thousand euros i.e. 2% compared to the same period last year. Wholesale and franchise increased 6% in the second quarter. Increase in revenue is mainly due to Russian retail market transition over to franchise partner and Monton women's collection entrance to German department store chain Peek & Cloppenburg. Monton cooperation with the European top department store chain started at the end of 2015 and the 2016 spring-summer collection was available in three Peek & Cloppenburg department stores in Germany. In this July the number of Monton collection selling Peek & Cloppenburg departments stores increase to 13 and in 2017 Monton women's spring-summer collection will be available in 25 Peek & Cloppenburg department stores in Germany, Austria, Czech Republic, Bulgaria, Croatia, Poland, Hungary and Romania.

E-store andmorefashion.com that sells Baltika Group's fashion brands revenue increased 12% in the second quarter and was 252 thousand euros.

In second quarter Baltika Group retail revenue in three retail markets: Estonia, Latvia and Lithuania decreased 4% compared to same period last year and was 10,290 thousand euros. However due to more effective intake margin management process and lower mark-downs the retail gross profit has increased and the gross profit margin has increased as well by 2.8 percentage points from 55.2% to 58.0%. In addition to retail's gross profit margin e-com, wholesale and franchise gross profit margin has increased as well.

Company gross profit margin in second quarter was 52.3%, which is 1.3 percentage points higher than last year same period margin 51.0%.

In the first half-year Baltika retail revenue totalled 22,323 thousand euros, which is 4% less than in the same period last year. Baltika ended the first half-year with net loss in the amount of 147 thousand euros. The result of last year same period was net loss of 1,069 thousand euros and comparative figure of continued operations was loss of 656 thousand euros.

In addition to exiting from Ukrainian and Russian retail market and more effective gross profit margin management the results have improved as well due to costs control. Distribution, administrative and general expense has decreased almost 3% compared to last year.

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

- On April 18th 2016 Monton presented its Rio Olympics special collection for the first time to public in Lennusadam.
- From May 2nd 2016 Kristel Sooaru started 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.
- The Annual General Meeting of AS Baltika, held on 2 May 2016, approved the Annual report for 2015 and covering net loss from retained earnings. Meeting also approved the amendments of the Articles of Association.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

- On 21th of May 2016 new Monton-Mosaic brand store in Tartu Kvartal shopping centre was opened. The store is special for its playful interior design which is inspired by one of the biggest interior trends in the world – upcycling. New Monton-Mosaic brand store is the 10th Baltika Group shop opened in Tartu.

- Baltika was chosen as one of the leading brands in Estonia. The Estonian Chamber of Commerce and Industry is preparing the book "Leading Brands of Estonia", which contains 60 leading brands of Estonia. Baltika was chosen in top fifty most widely known and internationally operating companies in Estonia. In 2016 published first edition will be presented in this fall. The criterions of choosing the leading Estonian companies and brands were: created in Estonia and recognisable Estonian heritage, widely known in Estonia, brand is positioned as Estonian brand, has an export potential or operates internationally.

- On 27th of July 2016 AS Swedbank and AS Baltika signed an agreement amendment according to which Baltika will get during one-year period investment loan in the amount of 2 million euros with a repayment period of 4 years. Agreement amendment also contains 20 month extension for the repayment of the existing loan in the amount of 1 million euros. Loan interest margin remained same.

REVENUE

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

Baltika's continued operations second quarter sales revenue decreased by 2% and was 11,818 thousand euros. Growth was largest with 12% in e-com and was 252 thousand euros. Retail sales in second quarter were 10,290 thousand euros, decreasing 4% compared to prior year same period.

Revenue by activity

Continued operations

EUR thousand	2 Q 2016	2 Q 2015	+/-	6M 2016	6M 2015	+/-
Retail	10,290	10,692	-4%	18,718	20,027	-7%
Wholesale & Franchise	1,182	1,119	6%	2,965	2,721	9%
E-com sales	252	225	12%	504	491	3%
Other	94	42	124%	136	60	127%
Total	**11,818**	**12,079**	**-2%**	**22,323**	**23,299**	**-4%**

Revenue including discontinued operations

EUR thousand	2 Q 2016	2 Q 2015	+/-	6M 2016	6M 2015	+/-
Retail[1]	10,290	11,795	-13%	18,718	22,234	-16%
Wholesale & Franchise	1,182	1,119	6%	2,965	2,721	9%
E-com sales	252	225	12%	504	491	3%
Other	94	42	124%	136	60	127%
Total	**11,818**	**13,181**	**-10%**	**22,323**	**25,506**	**-12%**

[1]2015 retail revenue includes Russian market sales

Stores and sales area

As at 30 June 2016 Group had 130 stores, among which 36 franchise stores. In May one new Monton and Mosaic multibrand store was opened in Tartu Kvartal shopping centre. Russian franchise store portfolio increased due to local retail transition to franchise.

From retail markets, Latvia is the only market where average area has decreased. Decrease by 6% is caused by closed store and also from renovations and moving stores to smaller areas.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

Stores by market

	30 June 2016	30 June 2015	Average area change*
Estonia	44	43	7%
Lithuania	29	28	2%
Latvia	21	22	-6%
Ukraine[1]	15	15	2%
Russia[2]	13	5	445%
Belarus[1]	2	2	0%
Spain[1]	6	5	19%
Total stores	**130**	**120**	
Total sales area, sqm	**23,574**	**21,354**	**14%**

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

[1]Operating franchise shops in Ukraine, Belarus and Spain are with a total sales area of 3,999 m^2.

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

Retail

Second quarter continued operations retail revenue decreased by 4% compared to same period last year and was 10,290 thousand euros.

Retail sales by market

EUR thousand	2 Q 2016	2 Q 2015	+/-	Share	6M 2016	6M 2015	+/-	Share
Estonia	4,949	4,996	-1%	48%	8,848	9,166	-3%	47%
Lithuania	2,721	2,900	-6%	26%	5,080	5,548	-8%	28%
Latvia	2,620	2,796	-6%	25%	4,790	5,313	-10%	26%
Total	**10,290**	**10,692**	**-4%**	**100%**	**18,718**	**20,027**	**-7%**	**100%**
Russia*	0	1,103	-100%	-	0	2,207	-100%	-

*Discontinued operations

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

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

	2 Q 2016	2 Q 2015	+/-	6M 2016	6M 2015	+/-
Estonia	217	235	-8%	198	219	-10%
Lithuania	159	171	-7%	149	166	-10%
Latvia	231	233	-1%	212	222	-4%
Total	**201**	**213**	**-6%**	**185**	**202**	**-9%**

Brands

In the second quarter Monton and Ivo Nikkolo brands retail revenue increased compared to same period last year. In addition to increased sales area Ivo Nikkolo results increased due to summer collection which was warmly welcomed by customers. Monton results improved due to strong men's collection and successful Rio Olympics collection launch. Mosaic and Bastion second quarter results didn't meet the expectations. Decrease in Mosaic revenue is mainly caused by decrease in women's collection sales area and also due to higher level of competition in the market. In this year second quarter Bastion brand retail revenue, which have been increasing during previous periods, were highly impacted by the decrease in Tallinn Viru street Bastion store sales, who's number of visitors dropped almost by half due to repair works of Viru street.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

Retail revenue by brand

EUR thousand	2 Q 2016	2 Q 2015	+/-	Share	6M 2016	6M 2015	+/-	Share
Monton	4,330	4,298	1%	42%	7,721	7,960	-3%	41%
Mosaic	3,333	3,590	-7%	32%	5,880	6,726	-13%	31%
Baltman	1,255	1,316	-5%	12%	2,291	2,374	-4%	12%
Ivo Nikkolo	940	885	6%	9%	1,925	1,877	3%	10%
Bastion	417	450	-7%	4%	799	808	-1%	4%
Other	15	154	-90%	0%	102	282	-64%	1%
Total	**10,290**	**10,692**	**-4%**	**100%**	**18,718**	**20,027**	**-7%**	**100%**

Sales through other channels

In the second quarter of 2016 the sales result of wholesale and franchise was 1,182 thousand euros, increasing 63 thousand euros i.e. 6%. Increase in volume is mainly due to Russian retail market transition over to franchise partner. Wholesale to Germany has also increased. Since the beginning of 2016, the international fashion brand Monton, which belongs to the Baltika Group, has been securing its presence in the most popular and long-standing chain of department stores in Europe – Peek & Cloppenburg: while the spring/summer collection of 2016 was available in three Peek & Cloppenburg stores in Germany, then in 2017, the Monton women's spring/summer collection will be reaching 25 Peek & Cloppenburg stores in Germany, Austria, the Czech Republic, Bulgaria, Croatia, Poland, Hungary and Romania. 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 increased in the second quarter by 12% 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. Andmorefashion.com website was visited from 149 different countries. From July Monton and Mosaic selected products are also available for purchasing or for pre-shopping in Amazon.de website, which is visited by more than 30 million unique visitors in a month.

OPERATING EXPENSES AND NET PROFIT

Company's gross profit margin in the second quarter was 52.3%, which is 1.3 percentage points higher than in the same period last year 51.0% margin. The first half-year gross profit margin is 51.5% which means improvement of 3.2 percentage points compared to same period last year. Gross profit margin has improved due to better purchasing price and lower mark down. Quarterly gross profit was 6,179 thousand euros, which makes the first half-year gross profit 11,490 thousand euros i.e. 241 thousand euros more than last year comparative result.

Distribution expense in the second quarter was 5,108 thousand euros, decreasing 3% compared to last year same period. In the head-office distribution expense has decreased by 7% i.e. 112 thousand euros due to more efficient processes, in Baltics retail markets expense has decreased by 1% i.e. 50 thousand euros. In first half-year total distribution expense have decreased by 174 thousand euros i.e. 2% compared to same period last year.

In second quarter general and administrative expense was 600 thousand euros, decreasing 1% compared to same period last year. In half-year total general and administrative expense was 1,269 thousand euros, which is 74 thousand euros less than in first half-year last year.

Distribution and general expense ratio to revenue in second quarter of 2016 was 48%. The expense ratio has decreased by 1 percentage point compared to the same period last year.

Other operating net expense in second quarter was 12 thousand euros and operating profit was 459 thousand euros. In last year same period the operating profit was 249 thousand euros.

Net financial expense in the second quarter was 113 thousand euros, which is 9 thousand euros less than in the same period last year.

The second quarter resulted in net profit in the amount of 346 thousand euros. Net profit in the same period previous year was 67 thousand euros and comparative result from continued operations was profit in the amount of 127 thousand euros. The first half-year resulted in net loss 147 thousand euros, the result in same period last year from continued operations was a loss in the amount of 656 thousand euros and with discontinued operations net loss in the amount of 1,069 thousand euros.

FINANCIAL POSITION

As at 30 June 2016, Baltika Group inventories totalled 11,859 thousand euros, increasing 1,435 thousand euros compared to last year-end. Compared to the same seasonal position on 30 June last year inventories have decreased in the amount on 1,410 thousand euros, from which decrease in amount of 653 thousand euros is from exiting Russian retail market. Continued operations goods and goods purchased for resale inventories have decreased by 10%.

As at 30 June 2016 the total borrowings amounted to 7,405 thousand euros, which signifies together with the usage of overdraft facility increase of 1,084 thousand euros compared to the last year-end (31 December 2015: 6,321 thousand euros). It is reasonable to compare the same purchase seasonal position at the end of June last year when total borrowings were 866 thousand euros higher i.e. 8,271 thousand euros.

In the second quarter purchase of fixed assets was made in the amount of 337 thousand euros and deprecation was 329 thousand euros. Property, plant and equipment and intangible assets at residual value decreased by 41 thousand euros compared to last year-end and were 4,813 thousand euros.

The second quarter operating activities cash-flow was 992 thousand euros (II quarter 2015: 521 thousand euros). Input to the investment activity was 307 thousand euros (II quarter 2015: 213). Bank loan repayments were made in the amount of 163 thousand euros. Group's second quarter total cash flow was 64 thousand euros (II quarter 2015: 112 thousand euros).

As at 30 June 2016 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 7,151 thousand euros, which is 1,252 thousand euros more than at the end of last year. The net debt to equity ratio was 154% as at 30 June 2016 (31 December 2015: 123%).

PEOPLE

As at 30 June 2016 Baltika Group employed 1,070 people that is 104 people less than as at 31 December 2015 (1,174): 507 (31.12.2015: 601, among who 79 are Russian retail market employees) in the retail system, 381 (31.12.2015: 387) in manufacturing and 182 (31.12.2015: 186) at the head office and logistics centre. The 2016 first half-years' average number of staff in Group was 1,088 (I half-year 2015 with Russian retail market staff: 1,221).

From May 2nd 2016 Kristel Sooaru started 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 half-year amounted 5,209 thousand euros (I half-year 2015: 5,403 thousand euros). The accrued remuneration with taxes, of the member of the Supervisory Council and Management Board totalled 125 thousand euros (2015: 162 thousand euros).

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

KEY FIGURES OF THE GROUP (II QUARTER AND 6 MONTHS 2016)

	2 Q 2016	2 Q 2015[1]	2 Q 2015	2 Q 2014	2 Q 2013	2 Q 2012
Revenue (EUR thousand)	11,818	12,079	13,181	13,225	14,264	13,157
Retail sales (EUR thousand)	10,290	10,692	11,795	12,319	13,600	12,376
Share of retail sales in revenue	87.1%	88.5%	89.5%	93.1%	95.3%	94.1%
Gross margin	52.3%	51.0%	52.1%	56.3%	59.2%	59.0%
EBITDA (EUR thousand)	790	554	520	1,053	1,226	1,408
Net profit (EUR thousand)	346	127	67	647	624	572
EBITDA margin	6.7%	4.6%	3.9%	8.0%	8.6%	10.7%
Operating margin	3.9%	2.1%	1.4%	5.7%	5.9%	7.4%
EBT margin	2.9%	1.1%	0.5%	5.0%	4.4%	4.4%
Net margin	2.9%	1.1%	0.5%	4.9%	4.4%	4.3%

Sales activity key figures	6M and 30 June 2016	6M and 30 June 2015[1]	6M and 30 June 2015	6M and 30 June 2014	6M and 30 June 2013	6M and 30 June 2012
Revenue (EUR thousand)	22,323	23,299	25,506	26,672	27,450	25,800
Retail sales (EUR thousand)	18,718	20,027	22,234	24,704	25,889	23,907
Share of retail sales in revenue	83.9%	86.0%	87.2%	92.6%	94.3%	92.7%
Share of exports in revenue	56.0%	57.1%	60.8%	65.3%	66.7%	67.9%
Number of stores in retail	94	93	104	107	115	106
Number of stores	130	120	131	126	115	106
Sales area (end of period, sqm)	16,766	16,936	24,473	20,777	22,575	21,368
Number of employees (end of period)	1,070	1,143	1,231	1,248	1,321	1,289
Gross margin	51.5%	48.3%	48.4%	51.7%	55.4%	55.0%
EBITDA (EUR thousand)	731	165	-194	-1,013	1,072	1,123
Net profit (EUR thousand)	-147	-656	-1,069	-1,834	21	-471
EBITDA margin	3.3%	0.7%	-0.8%	-3.8%	3.9%	4.4%
Operating margin	0.3%	-1.8%	-3.3%	-6.2%	1.1%	0.7%
EBT margin	-0.7%	-2.8%	-4.2%	-6.8%	0.1%	-1.7%
Net margin	-0.7%	-2.8%	-4.2%	-6.9%	0.1%	-1.8%
Inventory turnover	1.98	1.91	1.94	1.92	2.07	2.08

Other ratios[2]						
Current ratio	1.3	1.8	1.8	1.5	1.9	1.8
Net gearing ratio	154.1%	96.1%	96.1%	61.7%	43.3%	207.2%
Return on equity	-2.9%	-12.4%	-12.4%	-17.6%	0.2%	-4.8%
Return on assets	-0.6%	-4.5%	-4.5%	-7.6%	0.1%	-1.3%

[1]In connection with Baltika's exit from the Russian retail business, the sales activity key figures of the second quarter and 6 months of 2015 presents only results of continued operations.
[2]Other ratios include impact of continued and discontinued operations.

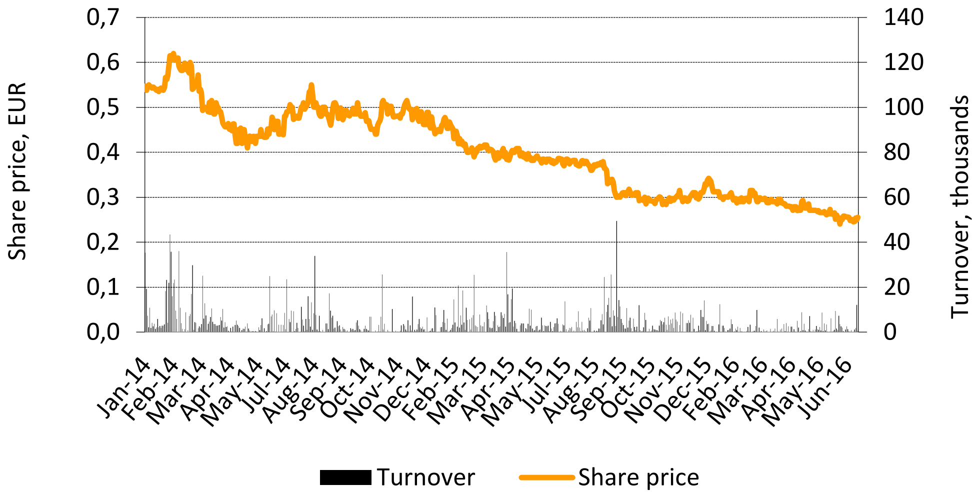
Definitions of key ratios

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
28 July 2016

Maigi Pärnik-Pernik
Member of the Management Board
28 July 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 second quarter and 6 months of 2016 as presented on pages 12-33.

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
28 July 2016

Maigi Pärnik-Pernik
Member of the Management Board
28 July 2016

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2016	31 Dec 2015
ASSETS			
Current assets			
Cash and cash equivalents	3	254	398
Trade and other receivables	4	1,983	1,607
Inventories	5	11,859	10,424
Total current assets		**14,096**	**12,429**
Non-current assets			
Deferred income tax asset		234	234
Other non-current assets	4	299	584
Property, plant and equipment	6	3,027	2,910
Intangible assets	7	1,786	1,944
Total non-current assets		**5,346**	**5,672**
TOTAL ASSETS		**19,442**	**18,101**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	4,182	3,009
Trade and other payables	9,10	7,009	6,709
Total current liabilities		**11,191**	**9,718**
Non-current liabilities			
Borrowings	8	3,223	3,312
Other liabilities	9	387	283
Total non-current liabilities		**3,610**	**3,595**
TOTAL LIABILITIES		**14,801**	**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		-147	-6,359
TOTAL EQUITY		**4,641**	**4,788**
TOTAL LIABILITIES AND EQUITY		**19,442**	**18,101**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Continuing operations					
Revenue	12,13	11,818	12,079	22,323	23,299
Cost of goods sold	14	-5,639	-5,919	-10,833	-12,050
Gross profit		**6,179**	**6,160**	**11,490**	**11,249**
Distribution costs	15	-5,108	-5,271	-10,109	-10,283
Administrative and general expenses	16	-600	-607	-1,269	-1,343
Other operating income (-expense)	17	-12	-33	-37	-40
Operating profit (loss)		**459**	**249**	**75**	**-417**
Finance costs	18	-113	-122	-222	-239
Profit (loss) before income tax		**346**	**127**	**-147**	**-656**
Income tax expense		0	0	0	0
Net profit (loss) from continuing operations		**346**	**127**	**-147**	**-656**
Net loss for the period from discontinued operations	**21**	**0**	**-60**	**0**	**-413**
Net profit (loss) for the period		**346**	**67**	**-147**	**-1,069**
Basic earnings per share from net loss for the period, EUR	19	0.01	0.00	0.00	-0.03
From continuing operations		0.01	0.00	0.00	-0.02
From discontinued operations		-	0.00	-	-0.01
Diluted earnings per share from net loss for the period, EUR	19	0.01	0.00	0.00	-0.03
From continuing operations		0.01	0.00	0.00	-0.02
From discontinued operations		-	0.00	-	-0.01

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Net profit (loss) for the period	**346**	**67**	**-147**	**-1,069**
Other comprehensive income (loss)				
Items that subsequently might be classified to profit or loss:				
Currency translation differences	0	-2	0	355
Total comprehensive income (loss)	**346**	**65**	**-147**	**-714**
Total comprehensive loss attributable to equity shareholders arises from:				
Continuing operations	346	127	-147	-656
Discontinued operations	0	-62	0	-58

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Operating activities					
Continuing operations:					
Operating profit (loss)		459	249	75	-417
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	329	305	645	590
Gain (loss) from sale, impairment of PPE, non-current assets, net		5	-11	12	-5
Other non-monetary expenses		323	56	261	-329
Changes in working capital:					
Change in trade and other receivables	4	10	211	-376	-179
Change in inventories	5	-1,311	156	-1,435	-151
Change in trade and other payables	9	1,239	-414	300	109
Interest paid		-62	-74	-118	-142
Income tax paid		0	-2	-1	-10
Discontinued operations		0	45	0	117
Net cash generated (used in) from operating activities		**992**	**521**	**-637**	**-417**
Investing activities					
Continuing operations:					
Acquisition of property, plant and equipment, intangibles	6, 7	-307	-266	-616	-531
Proceeds from disposal of PPE		0	60	0	121
Discontinued operations		0	-7	0	-10
Net cash used in investing activities		**-307**	**-213**	**-616**	**-420**
Financing activities					
Repayments of borrowings	8	-163	-274	-326	-548
Change in bank overdraft	8	-399	109	1,524	1,262
Repayments of finance lease		-59	-36	-89	-51
Net cash used in financing activities		**-621**	**-201**	**1,109**	**663**
Total cash flows		**64**	**107**	**-144**	**-174**
Cash and cash equivalents at the beginning of the period	3	**190**	**450**	**398**	**710**
Effect of exchange gains on cash and cash equivalents		0	5	0	26
Cash and cash equivalents at the end of the period	3	**254**	**562**	**254**	**562**
Change in cash and cash equivalents		**64**	**112**	**-144**	**-148**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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**
Loss for the period	0	0	0	-1,069	0	-1,069
Other comprehensive income	0	0	0	0	355	355
Total comprehensive income (loss)	**0**	**0**	**0**	**-1,069**	**355**	**-714**
Balance as at 30 June 2015	**8,159**	**809**	**1,182**	**241**	**-2,368**	**8,023**
Balance as at 31 Dec 2015	**8,159**	**496**	**1,182**	**-5,049**	**0**	**4,788**
Loss for the period	0	0	0	-147	0	-147
Total comprehensive loss	**0**	**0**	**0**	**-147**	**0**	**-147**
Balance as at 30 June 2016	**8,159**	**496**	**1,182**	**-5,196**	**0**	**4,641**

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 second quarter ended 30 June 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:

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

Average currencies	6M 2016	6M 2015
RUB (Russian rouble)	-21.09%	-34.69%
USD (US dollar)	-0.05%	18.56%

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

Balance-sheet date rates (30 June 2016; 31 Dec 2015)	
USD (US dollar)	-1.97%

Foreign exchange risk arises from the following in foreign currency that is not euro, cash and cash equivalents (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 30 June 2016 and 31 December 2015 3,000 thousand euros were fixed interest rate and 223 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.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

As at 30 June 2016 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted to 1,868 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 30 June 2016 was 1,050 thousand euros (31 December 2015: 2,574 thousand euros).

Financial liabilities by maturity at 30 June 2016

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	4,004	4,055	0	4,055
Finance lease liabilities (Note 8)	401	184	234	418
Convertible bonds (Note 8)	3,000	0	3,520	3,520
Trade payables (Note 9)	4,233	4,233	0	4,233
Other financial liabilities	57	57	0	57
Total	**11,695**	**8,529**	**3,754**	**12,283**

Financial liabilities by maturity at 31 December 2015

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
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**

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

Operational risk

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

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

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.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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%. At the end of reporting period the ratio was 154%. In the end of 2015 the ratio was 123%. The worsening of the ratio is influenced by the seasonality of the first half-year and the increase in borrowings related to it (increase in usage of overdraft).

Net gearing ratio

	30 June 2016	31 Dec 2015
Interest carrying borrowings (Note 8)	7,405	6,297
Cash and bank (Note 3)	-254	-398
Net debt	7,151	5,899
Total equity	4,641	4,788
Net gearing ratio	**154%**	**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 30 June 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.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

NOTE 3 Cash and cash equivalents

	30 June 2016	31 Dec 2015
Cash at hand	99	102
Cash at bank and overnight deposits	155	296
Total	**254**	**398**

All cash and cash equivalents are in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables	30 June 2016	31 Dec 2015
Trade receivables, net	1,569	1,186
Other prepaid expenses	259	189
Tax prepayments and tax reclaims, thereof	141	213
Value added tax	141	209
Other taxes	0	4
Other current receivables	14	19
Total	**1,983**	**1,607**

Long-term assets		
Non-current lease prepayments	276	278
Other long-term receivables	23	306
Total	**299**	**584**

All trade and other receivables are in euros.

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

30 June 2016	Baltic region	Eastern European region	Other regions	Total
Not due	526	763	1	1,290
Up to 1 month past due	28	0	9	37
1-3 months past due	3	0	124	127
3-6 months past due	0	0	80	80
Over 6 months past due	10	0	25	35
Total	**567**	**763**	**239**	**1,569**

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

	30 June 2016	31 Dec 2015
Fabrics and accessories	2,113	1,790
Work-in-progress	82	82
Finished goods and goods purchased for resale	8,999	8,588
Allowance for impairment of finished goods and goods purchased for resale	0	-500
Prepayments to suppliers	665	464
Total	**11,859**	**10,424**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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	383	27	434	1	845
Disposals	-6	-5	-5	0	-16
Depreciation	-141	-116	-241	0	-498
Currency translation differences	14	8	9	0	31
30 June 2015					
Acquisition cost	**2,562**	**4,923**	**5,417**	**1**	**12,903**
Accumulated depreciation	-1,529	-4,401	-3,716	0	-9,646
Net book amount	**1,033**	**522**	**1,701**	**1**	**3,257**
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	318	29	308	0	655
Disposals	-15	0	-24	0	-39
Reclassification	0	0	0	-1	-1
Impairment	-7	0	-4	0	-11
Depreciation	-159	-81	-247	0	-487
30 June 2016					
Acquisition cost	**2,731**	**4,726**	**4,738**	**0**	**12,195**
Accumulated depreciation	-1,687	-4,311	-3,170	0	-9,168
Net book amount	**1,044**	**415**	**1,568**	**0**	**3,027**

Information about discontinued operations in Note 21.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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	26	0	2	0	28
Amortisation	-115	-22	0	0	-137
Currency translation differences	0	0	0	158	158
30 June 2015					
Acquisition cost	**2,172**	**1,243**	**30**	**1,653**	**5,098**
Accumulated depreciation	-1,554	-315	0	0	-1,869
Net book amount	**618**	**928**	**30**	**1,653**	**3,229**
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	-136	-22	0	0	-158
30 June 2016					
Acquisition cost	**2,261**	**1,243**	**0**	**509**	**4,013**
Accumulated depreciation	-1,868	-359	0	0	-2,227
Net book amount	**393**	**884**	**0**	**509**	**1,786**

NOTE 8 Borrowings

	30 June 2016	31 Dec 2015
Current borrowings		
Current portion of bank loans	1,054	1,380
Overdraft	2,950	1,426
Current portion of finance lease liabilities	178	179
Other short term borrowings	0	24
Total	**4,182**	**3,009**
Non-current borrowings		
Non-current finance lease liabilities	223	312
Convertible bonds, share options (Note 11)	3,000	3,000
Total	**3,223**	**3,312**
Total borrowings	**7,405**	**6,321**

During the reporting period, the Group made loan repayments in the amount of 326 thousand euros (2015: 548 thousand euros). Group´s overdraft facilities with the banks were used in the amount of 2,950 thousand euros as at 30 June 2016 (31 December 2015: 1,426 thousand euros).

Interest expense of all interest carrying borrowings of the reporting period amounted to 221 thousand euros, including 88 thousand euros interest expense from the convertible bonds of related party (2015: 239 thousand euros, including 97 thousand euros interest expense from the loan of related party).

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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

Changes in 2016

In June the repayment date of overdrafts agreement (in amount of 1,000 thousand euros) was prolonged until July 2017.

In July an annex under an existing facility agreement was signed, which prolonged other overdrafts´s repayment date until July 2017 (in the amount of 3,000 thousand euros). With the same annex existing loan repayment period was extended by 20 months and additional investment loan in the amount of 2,000 thousand euros was taken, which will be repayed during next 4 years.

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 30 June 2016

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR või EONIA +4.6%	4,004
J-Bonds (Note 11)	6.50%	3,000
Total		**7,004**

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

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR või EONIA +4.6%	2,806
Borrowings at fixed interest rate (Note 11)	6.50%	3,000
Total		**5,806**

NOTE 9 Trade and other payables

	30 June 2016	31 Dec 2015
Current liabilities		
Trade payables	4,233	3,640
Tax liabilities, thereof	1,325	1,570
Personal income tax	224	229
Social security taxes and unemployment insurance premium	521	559
Value added tax	569	744
Corporate income tax liability	1	0
Other taxes	10	38
Payables to employees[1]	919	995
Other current payables	85	71
Other accrued expenses	57	49
Customer prepayments	20	2
Total	**6,639**	**6,327**
Non-current liabilities		
Other liabilities	387	283

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

Information about the liabilities to related parties is in Note 20.

Trade payables and other accrues expenses in denominated currency

	30 June 2016	31 Dec 2015
EUR (euro)	2,490	3,618
USD (US dollar)	1,800	22
Total	**4,290**	**3,640**

NOTE 10 Provisions

	30 June 2016	31 Dec 2015
Client bonus provision	370	370
Other provision	0	12
Total	**370**	**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 30 June 2016 and 31 December 2015 the provision is recognised in the amount of 370 thousand euros.

NOTE 11 Equity

Share capital and reserves

	30 June 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 30 June 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 30 June 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 30 June 2016	Number of convertible bonds 31 Dec 2015
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).

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

- 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 30 June 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	1,360,000	3.33%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	1,013,735	2.48%
Persons related to members of Management Board	334,183	0.82%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	10,607,381	26.02%
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.

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.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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 former Russian retail continued as franchise and will be reported in Wholesale segment.

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

	Retail, Baltic region	**Wholesale[1]**	**Total**
2 Quarter 2016			
Revenue (from external customers)	10,290	1,528	11,818
Segment profit[2]	2,251	247	2,498
Incl. depreciation and amortisation	-212	-19	-231
2 Quarter 2015			
Revenue (from external customers)	10,692	1,387	12,079
Segment profit[2]	2,109	247	2,356
Incl. depreciation and amortisation	-190	-19	-209
2 Quarter 2016 and as at 30 June 2016			
Revenue (from external customers)	18,718	3,605	22,323
Segment profit[2]	2,865	586	3,451
Incl. depreciation and amortisation	-413	-38	-451
Inventories of segments	4,260	0	4,260
2 Quarter 2015 and as at 30 June 2015			
Revenue (from external customers)	20,027	3,272	23,299
Segment profit[2]	2,991	525	3,516
Incl. depreciation and amortisation	-356	-38	-394
Inventories of segments	4,375	0	4,375

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

Reconciliation of segment profit to consolidated operating profit

	2 Q 2016	**2 Q 2015**	**6M 2016**	**6M 2015**
Total segment profit	2,498	2,356	3,451	3,516
Unallocated expenses[1]:				

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

Costs of goods sold and distribution costs	-1,427	-1,467	-2,070	-2,550
Administrative and general expenses	-600	-607	-1,269	-1,343
Other operating income (expenses), net	-12	-33	-37	-40
Operating profit (loss)	**459**	**249**	**75**	**-417**

[1]Unallocated 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

	30 June 2016	31 Dec 2015	30 June 2015
Total inventories of segments	4,260	4,465	4,375
Discontinued operations inventories	0	0	653
Inventories in Parent company and production company	7,599	5,959	8,241
Inventories on statement of financial position	**11,859**	**10,424**	**13,269**

NOTE 13 Revenue

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Sale of goods in retail channel	10,290	10,692	18,718	20,027
Sale of goods in wholesale and e-commerce channel	1,433	1,344	3,469	3,212
Other sales	95	43	136	60
Total	**11,818**	**12,079**	**22,323**	**23,299**

Sales by geographical (client location) areas

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Estonia	5,416	5,386	9,812	9,994
Lithuania	2,757	2,931	5,169	5,605
Latvia	2,738	2,923	5,052	5,570
Russia	380	247	784	522
Ukraine	156	244	507	553
Finland	143	167	400	414
Spain	130	134	326	446
Germany	34	13	105	22
Belarus	33	16	101	122
Other countries	31	18	67	51
Total	**11,818**	**12,079**	**22,323**	**23,299**

NOTE 14 Cost of goods sold

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Materials and supplies	4,527	4,860	9,040	10,082
Payroll costs in production	824	767	1,703	1,700
Operating lease expenses	169	163	337	332
Other production costs	93	100	202	206
Depreciation of assets used in production (Note 6,7)	26	29	51	60
Changes in inventories	0	0	-500	-330
Total	**5,639**	**5,919**	**10,833**	**12,050**

NOTE 15 Distribution costs

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Payroll costs	2,337	2,491	4,556	4,832
Operating lease expenses	1,577	1,552	3,155	3,059
Advertising expenses	311	351	652	632

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

Depreciation and amortisation (Note 6,7)	270	250	530	476
Fuel, heating and electricity costs	118	123	259	264
Municipal services and security expenses	81	79	171	153
Fees for card payments	62	84	113	157
Consultation and management fees	43	52	55	102
Travel expenses	39	33	86	100
Information technology expenses	39	37	88	74
Communication expenses	26	29	52	59
Other sales expenses[1]	205	190	392	375
Total	**5,108**	**5,271**	**10,109**	**10,283**

[1]Other 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

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Payroll costs	294	243	613	579
Operating lease expenses	107	111	219	224
Information technology expenses	59	59	116	124
Bank fees	38	44	78	74
Depreciation and amortisation (Note 6,7)	33	27	64	54
Fuel, heating and electricity expenses	16	16	36	48
Management, juridical-, auditor´s and other consulting fees	1	29	22	78
Other administrative expenses[1]	52	78	121	162
Total	**600**	**607**	**1,269**	**1,343**

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

NOTE 17 Other operating income and expenses

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Gain (loss) from sale, impairment of PPE	-6	-1	-13	6
Other operating income	3	5	6	7
Foreign exchange gain (-loss)	-4	-34	-22	-47
Other operating expenses	-5	-3	-8	-6
Total	**-12**	**-33**	**-37**	**-40**

NOTE 18 Finance income and costs

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Interest cost	-113	-122	-221	-239
Other finance costs	0	0	-1	0
Total	**-113**	**-122**	**-222**	**-239**

NOTE 19 Earnings per share

Basic earnings per share		2 Q 2016	2 Q 2015	6M 2016	6M 2015
Weighted average number of shares (thousand)	pcs	40,795	40,795	40,795	40,795
Net profit (loss) from continuing operations		346	127	-147	-656
Net loss from discontinued operations		0	-60	0	-413
Basic earnings per share	**EUR**	**0.01**	**0.00**	**0.00**	**-0.03**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

Basic earnings per share (continuing operations)	EUR	0.01	0.00	0.00	-0.02
Basic earnings per share (discontinued operations)	EUR	-	0.00	-	-0.01
Diluted earnings per share	**EUR**	**0.01**	**0.00**	**0.00**	**-0.03**
Diluted earnings per share (continuing operations)	EUR	0.01	0.00	0.00	-0.02
Diluted earnings per share (discontinued operations)	EUR	-	0.00	-	-0.01

In six months in 2016 as well as 2015 the Group had no dilutive instruments. In case, the Group had made profit, potentially dilutive could have been J-bonds and share option program.

Diluted earnings per share		**2 Q 2016**	**2 Q 2015**
Weighted average number of shares (thousand)	pcs	40,795	40,795
Adjustments:			
- weighted average of J-bonds that are dilutive (thousand)	pcs	6,000	6,000
- weighted average of share options that are dilutive (thousand)	pcs	1,000	0
Total weighted average number of shares and convertible bonds		**47,795**	**46,795**
Net profit (loss) from continuing operations		346	127
Net profit (loss) from discontinued operations		0	-60
Interest expense (convertible bonds)		52	97
Adjusted net profit (loss) attributable to equity holders of the parent		**398**	**164**
Diluted earnings per share	**EUR**	**0.01**	**0.00**
Diluted earnings per share (continuing operations)	EUR	0.01	0.00
Diluted earnings per share (discontinued operations)	EUR	0.00	0.00

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 0.29 euros (2015: 0.41 euros).

NOTE 20 Related parties

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

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

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

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

Transactions with related parties

	2 Q 2016		2 Q 2015		6M 2016		6M 2015	
	Purchases	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**
Goods	0	0	0	1	0	0	0	4
Services	3	0	72	0	6	0	234	0
Total	**3**	**0**	**72**	**1**	**6**	**0**	**234**	**4**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

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

Balances with related parties

	30 June 2016	31 Dec 2015
Other current loans and interests (Note 8, 9)	2,879	2,804
Trade payables (Note 9)	3	17
Payables to related parties total	**2,882**	**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 30 June 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 30 June 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

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Salaries of the members of the Management Board	46	74	117	153
Remuneration of the members of the Supervisory Council	4	4	8	9
Total	**50**	**78**	**125**	**162**

As at 30 June 2016 there were two Management Board Members and as at 31 December 2015 there were three Management Board Members. As at 30 June 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.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2016 (in thousands euros, unaudited)

An extract of the revenue and expenses of discontinued operation

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Discontinued operation				
Revenue	0	1,103	0	2,207
Expenses	0	-1,156	0	-2,608
Other operating expense and income tax	0	-7	0	-12
Net loss for the reporting period	**0**	**-60**	**0**	**-413**

Consolidated cash-flow of the discontinued operation

	2 Q 2016	2 Q 2015	6M 2016	6M 2015
Net cash used in operating activities	0	45	0	117
Net cash used in investing activities	0	-7	0	-10
Total cash flows	**0**	**38**	**0**	**107**
Cash and cash equivalents at the beginning of the period	**0**	**152**	**0**	**83**
Effect of exchange gains on cash and cash equivalents	0	0	0	0
Cash and cash equivalents at the end of the period	**0**	**190**	**0**	**190**
Change in cash and cash equivalents	**0**	**38**	**0**	**107**

AS BALTIKA SUPERVISORY COUNCIL

JAAKKO SAKARI MIKAEL SALMELIN
Chairman of the Supervisory Council since 23 May 2012, Member of the Supervisory Council since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 30 June 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 30 June 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 30 June 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 Dzirnavnieks,
Chairman of the Board of Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy.
Baltika shares held on 30 June 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 30 June 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 30 June 2016: 1,013,735 shares[1]

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 30 June 2016: 0

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