Baltika Group

AS BALTIKA

CONVERTIBLE BOND OFFERING PROSPECTUS

Tallinn, 3 July 2014

This Convertible Bond Offering Prospectus (the "Prospectus") has been prepared in connection with the public offering (the "Offering") of convertible bonds of Aktsiaselts BALTIKA (the "Issuer", "Company" or "Baltika", together with its subsidiaries, the "Group" or "Baltika Group"), registry code 10144415, address at Veerenni 24, Tallinn, Estonia - a public limited liability company incorporated in Estonia.

Baltika is publicly offering 600 convertible J-bonds (the "Bonds") for sale to investors with the issue of Bonds with the issuance price of 5,000 euros per bond. The Offering is made to the Company's shareholders and to the public (the "Investors").

The Company's shareholders who are fixed in the share ledger on 14 July 2014 at 08:00 (Estonian time, GMT+2) shall be granted the pre-emptive right to subscribe the Bonds.

Investing in the Bonds involves risks. This Prospectus has been prepared to present a fair overview of the Bonds and Offering. However, the value may be affected by circumstances not reflected in this Prospectus. Please see section" Risk Factors" below.

This Prospectus has been prepared by the Company in connection with the public offering of the Bonds in accordance with the Securities Market Act and the decree of Minister of Finance No 4 - The conditions for public offering, trading and listing prospectus, on 9 January 2006.

The information contained in this Prospectus has been provided by the Company and other sources identified herein. You may not use this Prospectus for any other purpose than for making the decision to participate in the Offering or not to participate in the Offering.

RESPONSIBLE PERSONS

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, having taken reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Tallinn, 3 July 2014

Management Board of Baltika

Meelis Milder

Maigi Pärnik-Pernik

Kati Kusmin

Maire Milder

Andrew J. D. Paterson

LEGAL NOTICE TO SUBSCRIBER

This Prospectus will be governed by and construed in accordance with Estonian laws. Any disputes relating to the Prospectus will be settled in a competent court of law, having its jurisdiction in Estonia.

No person has been authorised to give any information or to make any representation in connection with the Offering other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Company. This Prospectus does not constitute an offer to sell, or a solicitation of an offer, subscribe or to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

The distribution of this Prospectus and the offering or sale of the Bonds in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Company to acquaint them with the law and to observe such restrictions. Neither the delivery nor distribution of this Prospectus nor the offering, sale or delivery of the Bonds shall in any circumstances constitute a representation or create any implication that there has been no change, or any event reasonably likely to involve any change, in the condition (financial or otherwise) or affairs of the Company since the date of this Prospectus. The Company will update any information presented in this Prospectus in accordance with the applicable provisions of the Estonian Securities Market Act.

Each prospective purchaser of Bonds must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells the Bonds or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and the Company shall bear no responsibility for these obligations.

The contents of this Prospectus are not construed as legal, business or tax advice. Prospective investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

Any new significant circumstances, mistakes or inaccuracies relating to the information included in this Prospectus which is capable of affecting the assessment of the Bonds and which become known between the time when this Prospectus is approved and the end of Offer Period shall be immediately stated by the Company through announcement on NASDAQ OMX Tallinn.

Any new significant circumstances, mistakes or inaccuracies relating to the information included in the prospectus which is capable of affecting the assessment of the Bonds and which become known after the registration of the Prospectus but before the final closing of the offer to the public, shall be stated in a supplement to the Prospectus. If necessary, the prospectus summary and its translations shall also be supplemented.

If a supplement to a Prospectus is made public during the period of the offer, the Company is required to:

1) cancel the subscription at the request of the subscriber and return all that has been received;
2) repurchase the Bonds with the purchase price paid to the Investors who require repurchase.

AVAILABLE INFORMATION

This Prospectus has been published in an electronic form on the website of the Estonian Financial Supervision Authority (www.fi.ee).

The Articles of Association of the Company, the annual reports, including audited consolidated financial statements, of the Company for the financial years ended 31 December 2013 are available on the

NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are forward-looking. Such forward-looking statements and information are assumptions based on information available to the Company. When used in this document, the words "anticipate," "believe," "estimate", "plan" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, risks or uncertainties associated with the Company's technological development, growth management, relations with customers and suppliers and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations (including those of the European Union), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail under section "Risk Factors".

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected.

The Company does not intend, and does not assume any obligation, to update the forward-looking statements included in this Prospectus as at the date set forth on the cover.

PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for the year ended 31 December 2013 (the "**Consolidated Annual Financial Statements**") are incorporated into this Prospectus by reference. The Consolidated Financial Statements have been prepared in accordance with the IFRS as adopted by the European Union ("IFRS"). The Consolidated Annual Financial Statements were audited by AS PricewaterhouseCoopers with its registered office in Tallinn (See Section 9 *"Independent Auditors"*). These are incorporated hereto by reference (please see Section 10 Information incorporate by reference).

The unaudited consolidated interim financial statements of the Group for the three months ended 31 March 2014 (the "**Consolidated Interim Financial Statements**", and together with the Consolidated Annual Financial Statements, the "**Consolidated Financial Statements**"), prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") are incorporated into this Prospectus by reference. All consolidated financial statements are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com). These are incorporated hereto by reference (please see Section 10 Information incorporate by reference).

The Company is going to publish the unaudited consolidated interim financial results of Q2 of 2014 by latest 21 July 2014 through NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

Certain financial information presented in this Prospectus has been obtained directly from the Consolidated Financial Statements of the Group, while certain other financial information presented herein has been recomputed by the Management from amounts contained in the Consolidated Financial Statements. Please note that ratios and indicators set forth herein have not been audited.

Certain financial and other information set forth in a number of tables in this Prospectus has been rounded off, for the convenience of readers. Accordingly, in certain instances, the sum of the numbers in a column may not conform exactly to the total figure given.

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1 SUMMARY

This summary should be read as an introduction to the prospectus and any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the Estonian legislation have to bear the costs of translating the prospectus before the legal proceedings are initiated. No civil liability shall attach to any person solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus.

Overview

Baltika is established and operating pursuant to the laws and regulations of the Republic of Estonia. The Company is registered at Harju County Court registration department under the registry code 10144415. Please see the company's website www.baltikagroup.com for more information.

The Company was established on 1 August 1991 and registered with the enterprise register held by the local municipality. After the enforcement of the Estonian Commercial Code, Baltika was registered at Harju County Court registration department on 9 May 1997. The legal address of the Company is Veerenni 24, Tallinn 10135, Estonia and the phone number is +372 630 2731.

Baltika's shares have been listed on the NASDAQ OMX Tallinn Stock Exchange. The listing dates are as following: 5 June 1997 (Main list), 7 May 1998 (Secondary list) and 17 February 2003 (Main list).

Entities in Group as at 03.07.2014

Subsidiary	Location	Activity	Shareholding
OÜ Baltika Retail	Estonia	Holding	100%
OÜ Baltman[1]	Estonia	Retail	100%
SIA Baltika Latvija[1]	Latvia	Retail	100%
UAB Baltika Lietuva[1]	Lithuania	Retail	100%
OOO Kompania „Olivia“[1]	Russia	Retail	100%
OOO "Stelsing"[2]	Russia	Retail	100%
OOO "Plazma"[2]	Russia	Retail	100%
OY Baltinia AB	Finland	Distribution	100%
Baltika Sweden AB	Sweden	Distribution	100%
OÜ Baltika Tailor	Estonia	Production	100%

[1] Interest through a subsidiary

[2] Interest through subsidiary's subsidiary

Baltika Group is an international fashion retailer operating in the Baltic countries and Eastern Europe. Baltika Group operates six retail concepts: Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo and also under franchise agreement Blue Inc. The Group employs a vertically integrated business model, which means that it controls all stages of the fashion industry process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The Group also sells its collections through wholesale.

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

Reasons for the offering

The purpose of the Offering is to support the operations of the Group through improved liquidity and investment.

The Offering and the related conditional share capital increase was approved by the Company's Annual General Meeting of Shareholders on 28 April 2014. The decision of the Annual General Meeting of Shareholders has been published on the NASDAQ OMX Tallinn and on the Company's website on 28 April 2014. The terms and conditions of issue of convertible bonds (J-Bonds) have been published on the NASDAQ OMX Tallinn and on the Company's website on 4 April 2014.

The unfavourable second half-year developments of 2013 in Ukraine and Russia have continued with its impact on financial results into 2014. One of the main targets for 2014 is to carry out the plan to minimise the risks of Eastern-Europe impacting group total results. One of the possible lines of action is to change the operating model in these markets. Company sold the Ukrainian subsidiary on 29 April 2014 and will continue to operate in the Ukrainian market under franchise agreement. Company needs to work out a solution for Russian market. Current plan foresees focusing own retail network to Kaliningrad and St. Petersburg area. Franchise partners are sought to operate Baltika's current stores in other regions of Russia as well as for new areas.

Work is continued to expand franchise network and preparation has been started to launch the sale of all brands, in addition to Monton, through international e-shop, by the end of 2014.

Baltic retail is core to the company's economic stability and ground for growth. To maintain the position in the Baltic market amidst tight competition - renovation and opening of new stores is needed.

Achieving the targets for 2014 requires investments and sufficient financing of working capital. In accordance with the investment plan disclosed on NASDAQ OMX Tallinn in the second half of year 2012, the retail network requires investments. Also stronger working capital position would allow for better possibilities for decision making and increasing profitability.

The purpose of the Offering is to obtain additional financing for carrying out the aforementioned strategy.

Bonds Offering

The Offering comprises of 600 Bonds with issuance price of 5,000 euros, which are being offered to the Company's shareholders and to the public in Estonia with the issue of convertible bonds. Also, investors outside Estonia may participate provided that they act in accordance with the laws of their jurisdiction. The Offering shall take place in Estonia.

The Company's shareholders fixed in the share register on 14 July 2014 at 08:00 (Estonian time, GMT+2) shall be granted the pre-emptive right to subscribe for the Bonds. Offer period starts from 14 July 2014 at 10:00 (Estonian time, GMT+2) and terminates at 14:00 (Estonian time, GMT+2) on 28 July 2014 (the "Offer Period").

The shareholders have a pre-emptive right to subscribe for the Bonds in proportion to the sum of the nominal value of the shareholder's shares.

Therefore shareholders will be entitled to a preferential allocation of Bonds (the "Preferential Allocation") in the Offering before other investors. The Bonds that have not been allocated in the course of the

Preferential Allocation (i.e. Remaining Bonds) will be divided pro rata to the subscription amount of current shareholders outstanding Bonds subscriptions after Preferential Allocation and among investors who subscribed for Bonds without any shareholders pre-emptive rights.

Pursuant to law, if it becomes evident that Bonds are subscribed for in excess of the planned issuance, the Council has the right to decide on the distribution of Bonds based on the number of subscriptions of Bonds and on the cancellation of oversubscribed Bonds.

The Offering is not guaranteed by any person in the meaning of the Securities Market Act. However, KJK Fund, Sicav-SIF has signed the obligation to subscribe for all Bonds. For fulfilling the obligation, KJK Fund, Sicav-SIF shall submit the Subscription Order in the amount of 3,000,000 euros and will participate in the Offering as all other Investors.

The Management Board has nominated AS LHV Pank to act as an Agent and to collect and accept the Subscription Applications, to collect payments and after the allocation of Bonds return funds to Investors to whom Bonds were allocated less than subscribed for. AS LHV Pank will also act as an Agent at Bond maturity and return the funds should the investor decide not to convert the Bonds into Shares.

An investor wishing to submit a Subscription Application should send the filled and signed document to the Agent. Paper form Subscription Applications should be sent to AS LHV Pank Tartu mnt 2, Tallinn. Digitally signed applications should be sent to markimine@lhv.ee. The Subscription Application is made public together with the Prospectus and is also available for download on www.baltikagroup.com.

An investor shall make the payment to the Agent account EE397700777000310434 by no later than on 28 July 2014 at 16:00 (Estonian time, GMT +2). The transaction amount to be transferred will be equal to the Offer Price multiplied by the maximum number of Bonds subscribed.

If the allocation deviates from the amount of Bonds applied for, the funds transferred to Agent account, or the part thereof (the amount in excess of payment for the allocated Bonds) shall be returned by the Agent within three banking days after the allocation is announced.

The publication of results of Offering will be on 29 July 2014.

However, if it becomes evident that the total number of Bonds subscribed for are less than the planned issuance, the Company shall not cancel the Offering in its entirety. In case the Bonds are not subscribed for in total amount during the Offer Period, the Management Board shall prolong the subscription period or the undersubscribed Bonds shall be cancelled. The prolongation of the Offer Period together with the new payment date will be announced immediately through the NASDAQ OMX Tallinn company announcement facility. All terms of Offering remain unchanged but the dates would be changed according to the time of new issuance. Provided that KJK Fund, Sicav-SIF shall subscribe for Bonds according to their obligations there cannot be any under-subscription.Bonds shall be registered with the Estonian Central Registry of Securities *(Eesti Väärtpaberite Keskregister)*. The respective application shall be made within three (3) business days to the Estonian Central Registry of Securities from the Bonds Issue Date.

Key dates

The following are indicative key dates related to the Offering.

28 April 2014	The Annual General Meeting decides the issuance of Bonds
14 July 2014 at 08:00 (Estonian time, GMT+2)	The list of shareholders is fixed for the use of pre-emptive right to subscribe for the Bonds
14 July 2014 at 10:00 (Estonian time, GMT+2)	Offer period commences to subscribe for the Bonds
28 July 2014 at 14:00 (Estonian time, GMT+2)	Offer period ends
28 July 2014 at 16:00 (Estonian time, GMT+2)	Payment term
28 July 2014	Issuance of Bonds
29 July 2014	Publication of the results of the Offering

During the period from 15 July 2017 at 10:00 a.m. (Estonian time, GMT +2) until 30 July 2017 at 02:00 p.m. (Estonian time, GMT +2) (the "Share Subscription Period") each owner of the Bond has the right to require from the Company that Bonds to be exchanged against the shares of the Company. Each Bond gives to its owner the right to subscribe for 10,000 shares of the Company with the nominal value of 0.2 euros (the "Shares") and with the subscription price of 0.5 euros.

The term of the Bond is three years. In case the Investors do not subscribe for the Shares during the Share Subscription Period, the Investors shall lose the right to acquire Shares and the amount paid for the Bonds (5,000 euros for each bond) shall be returned to the Investors within one month after the expiry of the Share Subscription Period. In case the Investors do subscribe for the Shares, the issuance price of the Bonds shall be settled with the payment for the Shares.Risks

Baltika Group is exposed to different types of risk. The main risk factors are operational (including competition, consumer's purchasing behaviour, dependence on suppliers, dependence on key personnel, financing and loan agreements), industry-specific, risks inherent in foreign operations (including Baltic countries, Russia, franchise and wholesale partners), market (including currency risk, interest rate risk and price risk), credit and liquidity risks. Investor is exposed in addition to risks related to Baltika Group business also to risk factors related to the type of security issued.

While the risks named above and described in detail under Section 2 are the main ones, they do not constitute an exhaustive list of the risks to which the Group may be exposed and which may need to be addressed. There may be risks that the Group is currently not aware of or does not consider significant at present but which could likewise have an effect on the Group, Bonds or the price of the shares to be converted . Nor is it possible to preclude the emergence of certain unforeseen difficulties that could have an impact on the Group's financial performance. Information Available for Inspection

The Articles of Association of the Company, the annual reports, including audited consolidated financial statements, of the Company for the financial years ended 31 December 2013, the results of the Q1 of 2014 and the sales figures of April, May4 and June 2014 are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

Summary of the Selected Consolidated Financial Information

Financial position data

in EUR thousands	31.03.2014 unaudited	31.03.2013 unaudited	31.12.2013 audited	31.12.2012 audited
ASSETS				
Current assets				
Cash and cash equivalents	458	815	852	2,078
Trade and other receivables	1,342	2,125	1,514	1,836
Inventories	12,410	11,455	13,751	11,471
Total current assets	**14,210**	**14,395**	**16,117**	**15,385**
Non-current assets				
Deferred income tax asset	494	637	494	637
Other non-current assets	843	1,104	1,013	1,088
Investment property	0	0	0	0
Property, plant and equipment	2,809	2,810	3,023	2,256
Intangible assets	3,598	4,090	3,693	4,150
Total non-current assets	**7,744**	**8,641**	**8,223**	**8,131**
TOTAL ASSETS	**21,954**	**23,036**	**24,340**	**23,516**
EQUITY AND LIABILITIES				
Current liabilities				
Borrowings	2,427	1,649	3,158	1,598
Trade and other payables	6,989	6,264	7,503	7,005
Total current liabilities	**9,416**	**7,913**	**10,661**	**8,603**
Non-current liabilities				
Borrowings	3,707	5,468	2,171	4,702
Other liabilities	0	21	0	25
Total non-current liabilities	**3,707**	**5,489**	**2,171**	**4,727**
TOTAL LIABILITIES	**13,123**	**13,402**	**12,832**	**13,330**
EQUITY				
Share capital at par value	8,159	7,159	8,159	7,159
Share premium	715	94	684	63
Reserves	1,182	1,182	1,182	1,182
Retained earnings	2,573	2,471	2,471	1,667
Net profit (loss) for the period	-2,482	-603	102	804
Currency translation differences	-1,316	-669	-1,090	-689
Total equity attributable to equity holders of the parent	**8,831**	**9,634**	**11,508**	**10,186**
Non-controlling interest	0	0	0	0
TOTAL EQUITY	**8,831**	**9,634**	**11,508**	**10,186**
TOTAL LIABILITIES AND EQUITY	**21,954**	**23,036**	**24,340**	**23,516**

Profit and loss data

in EUR thousands	3m 2014 unaudited	3m 2013 unaudited	2013 audited	2012 audited
Revenue	12,171	11,675	58,353	56,332
Operating profit/(loss)	-826	-363	651	1,959
Profit/(Loss) before income tax	-905	-439	269	1,056
Net profit/(loss)	-2,482	-603	102	805

2 RISK FACTORS

While the risks described below are the main ones, they do not constitute an exhaustive list of the risks to which the Group may be exposed and which may need to be addressed. There may be risks that the Group is currently not aware of or does not consider significant at present but which could likewise have an effect on the Group or the price of the shares to be listed. Nor is it possible to preclude the emergence of certain unforeseen difficulties that could have an impact on the Group's financial performance.

2.1 OPERATIONAL RISKS

Competition

The Group earns most of its revenue from fashion retailing and faces intense competition in all its markets. The Group's main competitors are large international fashion retail groups whose financing and marketing options are better than those of the Group entities. They may have advantages in managing their operating costs and because of economies of scale they may be able to negotiate more favourable terms from suppliers. Should the market situation change and an international fashion retailer decide to grow its market share aggressively by lowering the price, the Group could find it difficult to compete and could lose market share, which in turn could have an adverse impact on its financial position. The Group is not able to guarantee that it can compete successfully with current or future competitors or that increasing competition will not have an adverse effect on its operations, financial position or financial performance. If the Group is unable to remain competitive, it may find it difficult to increase or maintain the current level of revenue.

Consumers' purchasing behaviour

The Group operates in business that is dependent of consumer spending and behaviour that can change over time due to economic environment and consumer sentiment. Any economic downturn would most likely constrain sales. The Group, as a retailer and as such its cash flows are heavily dependent on its retail performance, the latter is essential because retail cash flows are used to finance the purchase of new inventory.

Dependence on suppliers

In conducting its business, the Group relies on a number of key suppliers that provide the Group with products and materials. The Group's management is of the opinion that the Group has several alternative suppliers and is therefore not directly dependent on any single supplier. However, there is no guarantee that the Group could find a replacement for a cost-effective key supplier, which could lead to an increase in costs and a decrease in profitability.

Dependence on key personnel

Baltika Group success depends on a range of key competencies and the people who possess them. Over the years, the Group has acquired expertise and experience and the departure of any of the key personnel could have a disruptive effect on the Group's performance.

New professionals are hard to find because the number of people that have retailing, particularly fashion retailing, competencies is extremely limited. In Estonia, fashion retail training is not available and there are no vertically integrated fashion companies operating on large scale similar to Baltika Group. For Baltika Group, the main strategic areas are brand management, design and retailing.

Even if a person with appropriate competencies is found, additional in-house training has to be provided because each market has specific features which need to be considered. Such training is resource-intensive and the contribution of the new employee can be seen only after a year.

Baltika Group has consistently striven to mitigate the risk through effective teamwork, employee development, training and knowledge sharing.

Also, the departure of any key executive may cause limited but noticeable damage to the Group's management quality and the motivation of the remaining staff.

Financing and loan agreements

The Group's loan and lease agreements and guarantees include various restrictive covenants and impose the obligation to obtain the creditor's prior consent for certain activities such as taking additional loans, issuing new shares, distributing dividends, changing the Group's structure or field of activity and merging with another company.

All loan, lease and guarantee agreements signed with financing institutions include the usual default and cross-default provisions. The cross-default provisions expose the Group to the risk of default that depends on meeting the obligations taken under agreements signed with other financing institutions. Most agreements define taking additional debt obligations without the creditor's prior consent as breach of contract. Breach of a loan, lease or guarantee agreement or submission of an early repayment claim by a creditor may have a significant adverse impact on the Group's operations, financial performance and financial position.

The Group has entered into financing agreements with various financing institutions. Inability to meet the obligations taken under those agreements may result in the realization of the collateral put up by the Group through enforcement proceedings. Most of the interest rates of the loans taken by the Group entities are linked to the EURIBOR and EONIA base rate. Accordingly, a rise in the EURIBOR and EONIA base rate will result in growth in the Group's finance costs.

2.2 INDUSTRY-SPECIFIC RISKS

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 like Russia.

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 the 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. Another important risk is that the Group's information technology system is unable to ensure sufficiently fast and accurate transmission of information for decision-making purposes.

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

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

2.3 RISKS INHERENT IN FOREIGN OPERATIONS

Besides Estonia, the Group operates in Latvia, Lithuania and Russia. The Group's operations may be influenced by the instability of their economic environment, which in turn may have an adverse impact on the Group's financial position and financial performance.

Risks relating to doing business in the Baltic countries

Markets such as Estonia, Latvia and Lithuania are subject to slightly greater risks than more mature markets, including legal, economic and political risks. Political risks, though, do not seem to be very relevant in the Baltic countries like they are in Russia.

Risks relating to doing business in Russia

Baltika Group has business operations in Russia. Russia is subject to significantly greater legal, economic and political risks than those in more mature markets. Russia's business environment is challenging. Country's management practices rank low in international surveys, there are also corporate scandals, all stemming from the government's interference in business. The biggest risks remain corruption and the arbitrary rule of law.

Economic experts are sceptical about Russian economy. Country's economy was forecasted to have long-term stagnation together with inflation already before the situation in Ukraine. Conflict in Ukraine affects Russia and increases all the risks further. Exporting to Russia is harder due to money market pressure as rouble is expected to weaken further.

Risk relating to doing business with franchise and wholesale partners

Baltika Group brands are available to clients in some markets through franchise partners. The sales volumes on those markets depend on economic environment as well as the franchise partner. In addition to impact on franchise sales there is the risk of surplus inventory as the purchase agreements are made long in advance. The risk related to materialising the sales refer to Credit risk section.

2.4 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 ultimate holding company AS Baltika ("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 Company plays a major role in managing risks and approving risk procedures. The Supervisory Council of the Company's supervises the Management Board's risk management activities.

Market Risk

Foreign exchange risk

Sales in foreign currencies from continuing operations not pegged to euro constitute 84% in first quarter of 2014 (2013: 61%). Most important currencies in retail markets are LTL (Lithuanian lit) and RUB (Russian rouble). The majority of raw materials used in production are acquired from European Union, goods purchased for resale outside European Union. The major foreign currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled mainly in euros. As the Group's main revenues arise from retail sales, the prices of goods in the markets are fixed in a local currency and consequently, changes in foreign currency exchange rates directly affect the Group's revenue through the pricing of goods at the stores in those markets. In addition, a change in the economic environment and relative appreciation/depreciation of a local currency may greatly affect the purchasing power of customers in the market of the respective segment.

On January 2014 the Republic of Latvia joined the Euro area and adopted the Euro as its national currency, replacing Latvian lat.

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

No instruments were used to hedge foreign currency risks in 2014 and 2013. The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group, except in the case if the currencies were devaluated in the countries where Baltika has subsidiaries. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency. Additionally the Group uses the possibilities to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

Interest rate risk

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

The Group's interest rate risk arises mainly from borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. There is no fair value interest rate risk as the Group has no interest bearing financial instruments, which are recognised at fair value. Interest rate risk is primarily caused by the potential fluctuations of Euribor or Euonia and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

All non-current borrowings as at 31 March 2014 and 31 December 2013 were subject to a floating interest rate based on Euribor, which is fixed every six months. The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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

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

Baltika accepts as banks and financial institutions mostly independently rated parties with a minimum rating of "A" as long-term counterparties in Baltic states. For banks in Eastern Europe Baltika considers the "B" rating also acceptable.

Trade receivables

For the wholesale customers' credit policy is based on next actions: monitoring financial position, past experience and other factors are taken into consideration. According to the Group's credit policy, for new wholesale clients mostly prepayments are required or in some cases payment guarantees through bank are required. For some long-term 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.

With the sale of subsidiary 29.04.2014 the largest receivable is from Ukrainian entity, for which allowance of 1,095 thousand euros is recorded at the time. The receivable holds high risk as collection depends on the economic and political situation of the Ukrainian market. Management follows at dispatching the compliance with agreed credit limits and evaluates the adequacy of amount of allowance reserve.

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

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, 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 in the Group.

2.5 RISK FACTORS RELATED TO THE TYPE OF SECURITY ISSUED

Security-specific risks related to the issued Bonds could be outlined as follows:

- Market risk (liquidity risk);
- Credit risk of the bonds;
- Interest rate risk.

Market risk (liquidity risk) should be evaluated by a potential investor considering that the Bonds will be transferrable but not listed on any secondary market. There is no guarantee of liquidity of the Bonds. The investor might not be able to sell the bonds or bear a loss due to unfavourable price.

As a credit risk of the bonds, a potential investor should assess specific credit risks associated with Baltika. As a specific credit risk, events that undermine the creditworthiness of Baltika should be considered.

Interest rate risk should be assessed by a potential investor considering that besides the activities of the Company the developments of financial markets may affect the value of the Bonds for the Investor. When the interest rates are rising, the fixed interest rate of Bonds becomes less favourable for the Investor and vice versa.

Security specific risks related to the conversion option of the Bonds could be outlined as follows:

- Volatility of the share price
- Future dividend pay-outs
- Dilution
- Analyses published in respect of the Group

Volatility of the share price

There is no certainty about future movements in the price of a share that has been issued and listed. The general market price of shares may depend on several factors such as future interest rates, sector-specific indicators and market conditions, the Group's performance and cash flows, and the market terms of securities issued by other companies operating in the same or similar industry. The share price may fluctuate even if the Group's operating results meet expectations.

Future dividend pay-outs

There is no certainty that the Company will pay dividends on the shares. Nor is there any certainty about the size of a dividend payment. The distribution and size of dividends are decided by the Company's Management Board and Council and are, ultimately, at the discretion of the general meeting of the Company's shareholders. Dividend distributions depend on the Company's unrestricted cash funds and estimated cash needs, the Group's financial performance and financial position, any restrictive covenants provided in the Company's loan agreements and other factors.

Dilution

There is no certainty about future needs and form of financing the Group may require. Should the company issue additional shares or convertible bonds the ownership in the Group may be diluted.

Analyses published in respect of the Group

Share trading depends extensively on the reports and research published by sector and securities analysts in respect of the Group and its operations. The Group has no control over the activities of such analysts. If one or several analysts covering the Group lower the target price of the share, the share price may drop.

3 OFFERING

3.1 BONDS

Company name	Aktsiaselts BALTIKA
Registration number	10144415
Type of Bonds	Convertible bonds
Series designation	J-Bond
Issuance date	28 July 2014
Issuance price of Bonds	5,000 euros
Number of Bonds	600
Nominal value of Bond	2,000 euros
Interest	6.5% per annum
Maturity date	28 July 2017
Redemption price	5,000 euros
Number of shares exchanged for each Bond	10,000
Share conversion price	0.50 euros

The Offering comprises of 600 Bonds with issuance price of 5,000 euros, which are being offered to the Company's shareholders and to the public in Estonia with the issue of convertible bonds. Also, investors outside Estonia may participate provided that they act in accordance with the laws of their jurisdiction. The Offering shall take place in Estonia.

The Company's shareholders fixed in the share register on 14 July 2014 at 08:00 (Estonian time, GMT+2) shall be granted the pre-emptive right to subscribe for the Bonds. The shareholders have a pre-emptive right to subscribe for the Bonds in proportion to the sum of the nominal value of the shareholder's shares.

Pursuant to law, if it becomes evident that Bonds are subscribed for in excess of the planned issuance, the Council has the right to decide on the distribution of Bonds based on the number of subscriptions of Bonds and on the cancellation of oversubscribed Bonds.

The Offering is not guaranteed by any person in the meaning of the Securities Market Act. However, KJK Fund, Sicav-SIF has signed the obligation to subscribe for all Bonds. For fulfilling the obligation, KJK Fund, Sicav-SIF shall submit the Subscription Order in the amount of 3,000,000 euros and will participate in the Offering as all other Investors.

There shall be deemed to be an under-subscription if all Bonds are not subscribed for during the Offer Period. Provided that KJK Fund, Sicav-SIF shall subscribe for Bonds according to their obligations there cannot be any under-subscription.

The Company expects to issue the Bonds on 28 July 2014 and to announce the allocation of the Bonds on 29 July 2014 through the NASDAQ OMX Tallinn company announcement facility.

In case of under-subscription

However, if it becomes evident that the total number of Bonds subscribed for are less than the planned issuance, the Company shall not cancel the Offering in its entirety. In case the Bonds are not subscribed for in total amount during the Offer Period, the Management Board shall prolong the subscription period or the undersubscribed Bonds shall be cancelled. The prolongation of the Offer Period together with the new payment date will be announced immediately through the NASDAQ OMX Tallinn company announcement facility. All terms of Offering remain unchanged but the dates would be changed according to the time of new issuance. Provided that KJK Fund, Sicav-SIF shall subscribe for Bonds according to their obligations there cannot be any under-subscription.

3.2 TERMS AND CONDITIONS OF THE OFFERING

Right to participate in the offering

The Offering is made to the Company's existing shareholders fixed in the shareholders' list on 14 July 2014 at 08:00 (Estonian time, GMT+2) and to new investors. Investors outside Estonia may participate in the Offering only in case it is allowed under applicable laws to such investors bearing in mind that this Offering is not directed to persons whose involvement in the Offering requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law. The Offering shall take place in Estonia.

Offer period

Investors may submit Subscription Orders for Bonds during two weeks from 10:00 (Estonian time, GMT+2) on 14 July 2014 until 14:00 (Estonian time, GMT+2) on 28 July 2014.

Offer price

The Bonds will be nominated in euros. The Offer price is 5,000 euros per Bond.

Agent

AS LHV Pank (registry code in Estonian Commercial Register: 10539549), located at Tartu maantee 2, 10145 Tallinn, Estonia, performs duties of the Agent of Bond issue, mediating the issue-related payments. The agent also acts as a mediator of the information and documents between the Company and the Investors and shall perform other duties provided in this Prospectus. Contact information tel. +372 6800 426, fax +372 6 800 402.

Submission of Subscription Applications

The Company will invite investors to submit Subscription Application during the Offer Period in accordance with these Terms.

No action has been taken in any jurisdiction by the Company that would permit the public offering of the Bonds other than in Estonia, and the Offering is not being made in any jurisdiction in which it would not be permissible to offer the Bonds. This Offering is not directed to persons whose involvement in the offer requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law.

To receive Bonds an investor should have a securities account with the Estonian Central Register of Securities (the "ECRS"). Such a securities account can be opened through any account operator of the ECRS (a "Custodian"). As at the date of this Prospectus the following financial institutions operate as qualifying Custodians: AS Citadele banka, AS Eesti Krediidipank, Swedbank AS, AS LHV Pank, Nordea Bank Finland Plc Eesti filiaal, Danske Bank A/S Eesti filiaal, Versobank AS, AS SEB Pank, Tallinna Äripanga AS.

An investor wishing to submit a Subscription Application should send the filled and signed document to the Agent. Paper form Subscription Applications should be sent to AS LHV Pank Tartu mnt 2, Tallinn. Digitally signed applications should be sent to markimine@lhv.ee. The Subscription Application is made public together with the Prospectus and is also available for download on www.baltikagroup.com.

The shareholders should be aware that the shareholder's pre-emptive right to subscribe for the Bonds is freely transferable.

The Investor needs to fill in the Subscription Application the following details:

Subscriber

Name of the subscriber:	Name of the investor
Personal identification code or registry code:	Social security number/ personal identification code if investor is a natural person, registry code if legal person
Address:	Address of the investor
Telephone, email, fax:	Telephone, email, fax of the investor
Bank account number of the subscriber	Bank account number of the investor where refunding should be transferred if applicable
Number of securities account:	Number of the investor's securities account
Name of the account operator	Name of the investor's securities account operator

Details of subscription

Date:	Date of signing the Subscription Application
Number of Bonds to be subscribed:	Maximum number of Bonds which the investor wishes to acquire
The amount of money to be paid for the Bonds to be subscribed (number and in words): (number of bonds)x(issue price of EUR 5 000)	For example if Number of Bonds to be subscribed is 2: 10,000 ten thousand

For assistance in submitting the Subscription Application Investor can contact the Agent +372 6800 426.

It is the investor's responsibility to ensure that all information contained in his Subscription Application is correct, complete and readable. The Company shall have the right to reject any Subscription Application which is incomplete, incorrect or unclear.

By submitting a Subscription Application an investor:

- accepts these Terms and agrees with the Company that these Terms will be applicable to the investor's acquisition of Bonds;
- acknowledges that the Offering does not constitute a legally binding offer on behalf of the Company for the sale of the Bonds, and that the submission of a Subscription Application does not itself entitle the investor to acquire the Bonds nor result in a contract for the sale of Bonds;
- accepts that the number of Bonds indicated in the Subscription Application is considered to be the maximum number of Bonds which the investor would like to acquire and that the investor may receive less Bonds than this maximum amount;
- undertakes to pay for the Bonds subscribed for in accordance with the terms and conditions of the present Offering;
- accepts that the Company can reduce the number of Bonds allocated to the investor.

Amendment or cancellation of Subscription Applications

An investor may cancel their Subscription Application any time before the end of the Offer Period. Information regarding cancellation should be sent in writing to markimine@lhv.ee.

For amendment in Subscription Application notice of cancellation should be sent and new Subscription Application submitted. If transfer of payment in case of cancellation or excess transfer of payment in case of amendment is made prior to sending cancellation or amendment, the funds will be returned by the Agent within three banking days after the issuance of Bonds.

Payment

An investor shall make the payment to the Agent account EE397700777000310434 so that the payment is received by the Agent by no later than on 28 July 2014 at 16:00 (Estonian time, GMT +2). The transaction amount to be transferred will be equal to the Offer Price multiplied by the maximum number of Bonds subscribed by the investor.

The investor will lose all rights to subscribe for Bonds pursuant to that Subscription Application if the payment is not made in accordance with present terms and conditions.

Release of funds

If the allocation deviates from the amount of Bonds applied for, the funds transferred to the Agent account, or the part thereof (the amount in excess of payment for the allocated Bonds) shall be returned by the Agent within three banking days after the issuance of Bonds.

The Company assumes no liability for the return of the investor's funds by the Agent or for the payment of any interest accrued on the funds for the time when the funds were at the disposal of the Agent.

Allocation principles

Only when a Subscription Application is submitted and payment is received by the Agent in full compliance with these Terms will the investor be permitted to participate in the allocation process. The Company reserves the right to reject any Subscription Application in case payment has not been received by the Agent in compliance with these Terms.

Possible multiple Subscription Applications submitted by one investor shall be merged for the purposes of Preferential allocation as described below.

Preferential allocation

The Company's shareholders fixed in the shareholders' list on 14 July 2014 at 08:00 (Estonian time, GMT+2) shall be granted number of Bonds in proportion to their shareholding provided that investors have submitted a valid Subscription Application during the Offer Period. Therefore shareholders will be entitled to a preferential allocation of Bonds (the "Preferential allocation") in the Offering before other investors.

In case the number of existing shares of the shareholder shall not grant the right to subscribe to a round number of Bonds, the number of allocated Bonds will be rounded down to the closest round number of Bonds. If there are sufficient Bonds to allocate Bonds rounding up to the closest round number of Bonds and for such number Subscription Application has been made, the allocation will be made accordingly. If there are not sufficient Bonds to allocate to all for rounding up then in first order shareholders who have not received any Bonds will be allocated Bonds. A second criterion for making allocation is smaller amount to round up.

If Investor subscribes for more Bonds than entitled by the shareholding in addition to rounded up number of Bonds, they participate in the allocation of the Bonds exceeding the preferential allocation in the general tranche.

General tranche

The Bonds that have not been allocated in the course of the Preferential allocation (i.e. Remaining Bonds) will be divided pro rata to the subscription amount of current shareholders outstanding Bonds subscriptions after Preferential allocation and among investors who subscribed for Bonds without any shareholders pre-emptive rights.

In all cases the allocation of the Bonds will be decided by the Company in consultation with the legal adviser.

Distribution and registration

The publication of results of Offering will be made on 29 July 2014. The Agent will send digitally signed or scanned copy of confirmation to the Investor.

Should the Investor require confirmation in paper, then Agent should be submitted request to post it.

Bonds shall be registered with the Estonian Central Registry of Securities *(Eesti Väärtpaberite Keskregister)*. The respective application shall be made by the Company within three (3) business days to the Estonian Central Registry of Securities from the date of issuance of the Bonds. The Bonds allocated to the Investors shall be transferred to their respective securities accounts when Bonds are registered with the Estonian Central Registry of Securities.

Key dates

The following are indicative key dates related to the Offering.

28 April 2014	The Annual General Meeting decides the issuance of Bonds
14 July 2014 at 08:00 (Estonian time, GMT+2)	The list of shareholders is fixed for the use of pre-emptive right to subscribe for the Bonds
14 July 2014 at 08.00 (Estonian time, GMT+2)	Offer period commences to subscribe for the Bonds
28 July 2014 at 14:00 (Estonian time, GMT+2)	Offer period ends
28 July 2014 at 16:00 (Estonian time, GMT+2)	Payment term
28 July 2014	Issuance of Bonds
29 July 2014	Publication of the results of the Offering
31 July 2014	Application is filed to ECRS to register the Bonds
7 August 2014	Bonds are transferred to the securities accounts of the Investors

3.3 CONVERSION TO AS BALTIKA SHARES

During the period from 15 July 2017 at 10.00 a.m. (Estonian time, GMT+2) until 30 July 2017 at 02:00 p.m. (Estonian time, GMT +2) each owner of the Bond has the right to require from the Company that Bonds be exchanged against the shares of the Company. The Application form with up to date contact details will be sent prior to 15 July 2017 by the Company to all Bond holders. Each Bond gives to its owner the right to subscribe for 10,000 shares of the Company with the nominal value of 0.2 euros.

Shares subscribed by Bond holders shall give to each Bond holder all rights of the shareholder of the Company as of the date of issuance of the Shares. Investors shall deliver the applications to subscribe for the shares to the Board in writing and with the delivery of such applications the Shares are subscribed for and Investors may request from the Board to issue the certificate of subscription.

The share subscription price is 0.5 euros. The Issuance price of the Bond shall be calculated as payment for the Share Subscription Price. The amount between Share Subscription Price and nominal value of the share is premium, which is 0.3 euros.

Bond holders are entitled to subscribe for the Shares by themselves. Investors shall notify the Board of the securities account number where the issued and paid Shares should be transferred (in case the number of securities account is different from the securities account where the Bonds are held).

The amount of share capital of the Company as of the date of this Prospectus is 8,158,970 euros, divided into 40,794,850 registered shares with the nominal value of 0.20 euros. Pursuant to the decision of the annual ordinary general meeting of shareholders dated 20 April 2012, the I-Bonds were issued and the share capital was conditionally increased in the amount of up to 470,000 euros. In exchange for I-Bonds, 2,350,000 shares of the Company may be issued in January 2016. The share capital of the Company may thereafter be 8,628,970 euros.

The maximum amount of shares converted from Bonds represent approximately 12.8% of the Company's share capital following the conversion and approximately 14.7% of the Company's share capital prior to the conversion based on current share capital without conditional increase registered for I-Bonds. The maximum amount of shares converted represent approximately 12.2% of the Company's share capital following the Offering and approximately 13.9% of the Company's share capital prior to the Offering based on share capital if full amount of I-Bonds are converted in 2016.

3.4 TERMS AND CONDITIONS OF BONDS

Bonds are securities, representing the Company's debtual obligation in the amount of Issuance price of the Bonds. The Company's debt obligations rank *pari passu* with the rest of the Company's unsecured and unsubordinated debt obligations.

Interest

Bonds bear interest 6.5% per annum (Act 360). Calculation of interest is based on the Issuance price of Bonds and the actual number of days during the period from 29 July 2014 to 28 July 2017. The compound interest is paid once after 28 July 2017 within one month after the end of the Share Subscription Period (at the latest by 30 August 2017).

Taxation

The Bonds proceeds are subject to taxation in accordance to the legislation, effective in the Republic of Estonia or in the Investor's home country. Income tax shall be withheld, if pursuant to the legal acts effective in the Republic of Estonia, income tax is to be withheld from the payments related to Bonds.

The following is based on the tax laws of Estonia in effect as of the date of this Prospectus and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is in no way exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Estonia. Investors are encouraged to seek specialist advice as to the Estonian and other tax consequences of the purchase, ownership and disposition of the Bonds. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Income tax is withheld (in Estonia currently 21%) from interest payment subject to income tax paid to a non-resident or to a resident natural person. If an international agreement prescribes lower rates for withholding income tax from a payment made to a non-resident the rates prescribed by the international agreement are applied if the withholding agent submits a document certifying the recipient of income and the residency of the recipient of income to the Tax and Customs Board together with the tax return. The document need not be submitted if data on the recipient of income and the residency of the recipient of income have been entered in the register of taxable persons provided for in the Taxation Act.

Transfer and encumbrances

The owner has the right to transfer Bonds to third parties. The Bonds may be pledged. In order to pledge a Bond, a written disposition shall be prepared concerning the establishment of the pledge and a notice concerning the pledge shall be entered in the ECRS. Upon pledge of a Bond, the pledgor shall exercise the rights attached to the Bonds.

Redemption

The term of the Bond is three years. Neither the Issuer nor the Bond holder has the right to redeem the Bonds early. In case the Investors do not subscribe for the Shares during the Share Subscription Period, the Investors shall lose the right to acquire Shares and the amount paid for the Bonds (5,000 euros for each bond) shall be returned to the Investors simultaneously within one month after the expiry of the Share Subscription Period. The investors may also decide to convert only some of the Bonds they hold in which case the Company shall buy back the Bonds not converted for 5,000 euros within one month after the expiry of the Share Subscription Period and cancel these Bonds not converted.

Changes to terms and conditions

The terms and conditions of the issuance of Bonds may be changed by the decision of the general meeting of the shareholders of the Company and upon the consent of all Bond holders.

3.5 USE OF PROCEEDS

Background and reasons for the offering

The purpose of the Offering is to support the operations of the Group through improved liquidity and investment. The fees and expenses incurred in connection with the Offering and payable by the Company are estimated to amount to remain below 20 thousand euros (excluding applicable taxes).

The company will use 2,980 thousands euros raised from the issue in the following order of importance: 1,000 thousand euros for investment into retail network in the current financial year; 500 thousand euros into computer software and property, plant and equipment within a year; 1,5 million will help with working capital in current financial year and will be invested into retail network in year 2015.

The Offering and the related conditional share capital increase was approved by the Company's Annual General Meeting of Shareholders on 28 April 2014. The decision of the Annual General Meeting of Shareholders has been published on the NASDAQ OMX Tallinn and on the Company's website on 28 April 2014.

Use of proceeds

One of the main targets for 2014 is to carry out the plan to minimise the risks of Eastern-Europe impacting group total results. One of the possible lines of action is to change the operating model in these markets, which option was chosen and carried out in Ukraine. Company sold the Ukrainian subsidiary on 29 April 2014 and will continue to operate on the Ukrainian market under franchise agreement. Company needs to finalise minimising risk in Russian market. Current plan foresees focusing own retail network to Kaliningrad and St. Petersburg area. Franchise partners are seeked in other areas as well as for operating current Baltika stores located in other regions. While the solution on Russian market does not need financing and investment from the proceeds of issuance the negative results are the reason Group does not have and is unlikely to generate in the short term sufficient own resources for investment.

Work is continuing to expand franchise network and preparation has been started to launch the sale of all brands, in addition to Monton, through international e-shop, by the end of 2014.

Baltic retail is core to the company's economic stability and ground for growth. To maintain the position in the Baltic market amidst tight competition - renovation and opening of new stores is needed.

The unfavourable second half-year developments of 2013 in Ukraine and Russia have continued to impact the financial results in 2014. Achieving the targets for 2014 requires investments and sufficient financing of working capital. In accordance with the investment plan disclosed in the second half of year 2012, the retail network requires investments. Also stronger working capital position would allow for better possibilities for decision making and increasing profitability as being able to accept shorter payment terms increases the choice of suppliers and therefore purchasing efficiency.

Current investment plan foresees that in 2014 approximately 1 million euros will be invested into own retail network in the Baltics. Required renovation investment in Russia should remain below 0.05 million euros. Majority of the investment into own retail network in Baltics relates to renovation and upgrading of existing stores.

Investment plan foresees that in year 2015 approximately 1,5 million euros will be invested in own retail network with focus remaining on the Baltics. The portion of investment allocated to opening new stores will be higher in 2015 compared to 2014 with current opening plans involving Latvia and Estonia. The funds invested in 2015 will help to improve the working capital position in 2014.

In line with the strategy to develop other channels approximately 0.5 million euros will be invested in computer software and property, plant and equipment to improve the process related to sales through other channels, including for making all Baltika's brands available through e-store.

The purpose of the Offering is to obtain additional financing for carrying out the aforementioned strategy.

4 ISSUER

4.1 GENERAL INFORMATION

The Company's business name is Aktsiaselts BALTIKA. The Company is a limited company established pursuant to the laws and regulations of the Republic of Estonia. The Company is registered at Harju County Court registration department under the registry code 10144415. Please see the Company's website www.baltikagroup.com for more information.

The Company was established on 1 August 1991 and registered with the enterprise register held by the local municipality. After the enforcement of the Estonian Commercial Code, all companies had to register themselves pursuant to the requirements of the new legislation. Baltika was registered at Harju County Court registration department on 9 May 1997. The legal address of the Company is Veerenni 24, Tallinn 10135, Estonia and the phone number is +372 630 2731.

Baltika's shares are listed on the NASDAQ OMX Tallinn stock exchange. The listing dates are as follows: 5 June 1997 (Main List), 7 May 1998 (Secondary List) and 17 February 2003 (Main List). NASDAQ OMX Tallinn belongs to the world's largest exchange company NASDAQ OMX Group.

According to articles of association the field of activities are to design, develop, produce and arrange the sales of the fashion brands of clothing.

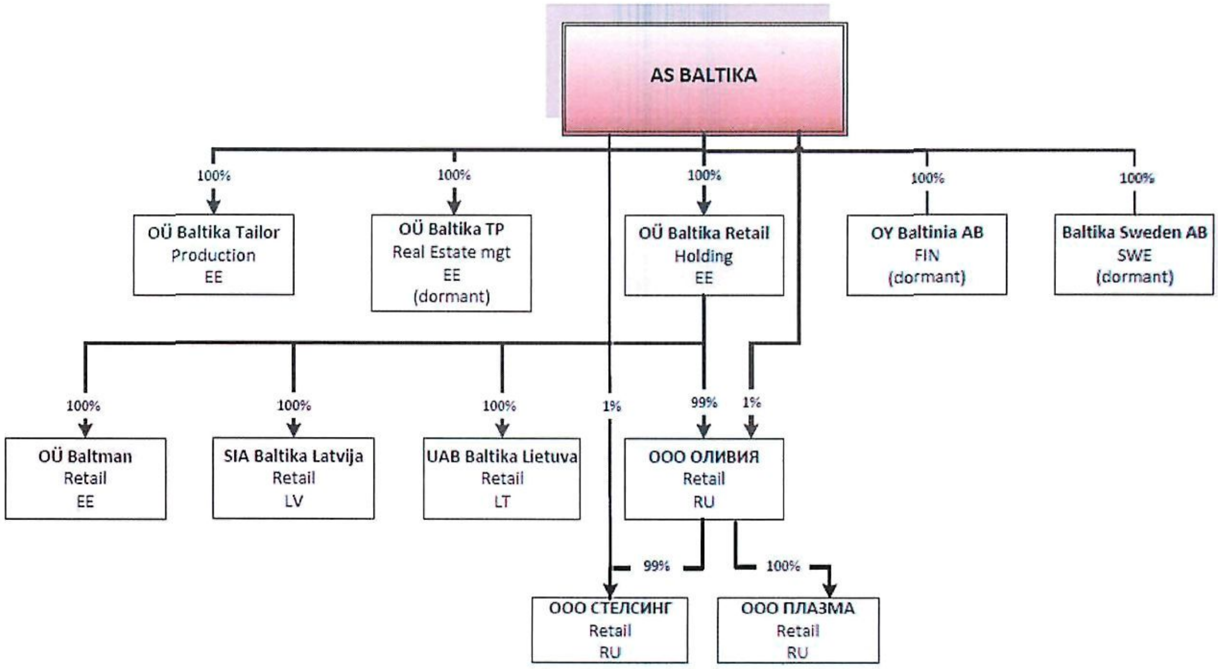
Baltika creates quality fashion that allows people to express themselves and feel great.

Baltika Group is an international fashion retailer operating in the Baltic countries and Eastern Europe. Baltika Group operates six retail concepts: Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo and also under franchise agreement Blue Inc. The Group employs a vertically integrated business model, which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The Group also sells its collections through wholesale and franchise.

Baltika has two production facilities both of which are located in Estonia. Production employs around 400 people. Approximately ¾ of own production staff are employed in Tallinn and ¼ in Ahtme. As the production facilities are in full use for own production, then there is very limited sewing services offered to external parties.

4.2 LEGAL STRUCTURE OF BALTIKA GROUP

As at 3 July 2014



AS Baltika , OÜ Baltika Retail, OÜ Baltman, OÜ Baltika Tailor, OÜ Baltika TP are located in Estonia; SIA Baltika Latvija in Latvia; UAB Baltika Lietuva in Lithuania; OOO "Olivia", OOO "Stelsing" and OOO "Plazma" in Russia; OY Baltinia AB in Finland and Baltika Sweden AB in Sweden.

The Group's all own production is located in Estonia and operated by OÜ Baltika Tailor.

OY Baltinia AB, Baltika Sweden AB and OÜ Baltika TP are dormant. There are currently no plans with the entities.

5 SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information of Baltika Group is derived as at and from the year ended 31 December 2013 as well as for the three months ended 31 March 2014.

The information as at and for the years ended on 31 December 2013 have been extracted from the Annual Consolidated Financial Statements, unless stated otherwise. The information as at and for three months ended on 31 March 2014 has been extracted from the Consolidated Interim Financial Statements.

The Annual Consolidated Financial Statements incorporated by reference in this Prospectus, have been audited by AS PricewaterhouseCoopers. The Consolidated Interim Financial Statements, incorporated by reference in this Prospectus, have not been audited nor subject to the auditors review.

The following selected consolidated financial information of Baltika Group should be read together with the Consolidated Financial Statements and other financial data included elsewhere in this Prospectus.

5.1 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

in EUR thousands	31.03.2014 unaudited	31.03.2013 unaudited	31.12.2013 audited	31.12.2012 audited
ASSETS				
Current assets				
Cash and cash equivalents	458	815	852	2,078
Trade and other receivables	1,342	2,125	1,514	1,836
Inventories	12,410	11,455	13,751	11,471
Total current assets	**14,210**	**14,395**	**16,117**	**15,385**
Non-current assets				
Deferred income tax asset	494	637	494	637
Other non-current assets	843	1,104	1,013	1,088
Property, plant and equipment	2,809	2,810	3,023	2,256
Intangible assets	3,598	4,090	3,693	4,150
Total non-current assets	**7,744**	**8,641**	**8,223**	**8,131**
TOTAL ASSETS	**21,954**	**23,036**	**24,340**	**23,516**
EQUITY AND LIABILITIES				
Current liabilities				
Borrowings	2,427	1,649	3,158	1,598
Trade and other payables	6,989	6,264	7,503	7,005
Total current liabilities	**9,416**	**7,913**	**10,661**	**8,603**
Non-current liabilities				
Borrowings	3,707	5,468	2,171	4,702
Other liabilities	0	21	0	25
Total non-current liabilities	**3,707**	**5,489**	**2,171**	**4,727**
TOTAL LIABILITIES	**13,123**	**13,402**	**12,832**	**13,330**
EQUITY				
Share capital at par value	8,159	7,159	8,159	7,159
Share premium	715	94	684	63
Reserves	1,182	1,182	1,182	1,182
Retained earnings	2,573	2,471	2,471	1,667
Net profit (loss) for the period	-2,482	-603	102	804
Currency translation differences	-1,316	-669	-1,090	-689
TOTAL EQUITY	**8,831**	**9,634**	**11,508**	**10,186**
TOTAL LIABILITIES AND EQUITY	**21,954**	**23,036**	**24,340**	**23,516**

Source: Consolidated Financial Statements

5.2 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

In EUR thousands	3m 2014 unaudited	3m 2013 unaudited	2013 audited	2012 audited
Revenue	12,171	11,675	58,353	56,332
Cost of goods sold	-6,254	-5,594	-27,138	-25,615
Gross profit	**5,917**	**6,081**	**31,215**	**30,717**
Distribution costs	-5,954	-5,711	-27,446	-26,193
Administrative and general expenses	-717	-735	-2,869	-2,722
Other operating income	2	9	155	341
Other operating expenses	-74	-7	-404	-184
Operating profit (loss)	**-826**	**-363**	**651**	**1,959**
Finance income	0	17	6	61
Finance costs	-79	-93	-388	-964
Profit (loss) before income tax	**-905**	**-439**	**269**	**1,056**
Income tax expense	-5	0	-167	-251
Net profit (loss) from continuing operations	**-910**	**-439**	**102**	**805**
Net loss for the period from discontinued operations	**-1,572**	**-164**	**0**	**0**
Net profit (loss)	**-2,482**	**-603**	**102**	**805**
Loss attributable to:				
Equity holders of the parent company	-603	-603	102	804
Non-controlling interest	0	0	0	1
Basic earnings per share	-0.06	-0.02	0.00	0.02
Diluted earnings per share	-0.06	-0.02	0.00	0.02

Source: Consolidated Financial Statements

5.3 SELECTED DATA FROM CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR thousands	3m 2014 unaudited	3m 2013 unaudited	2013 audited	2012 audited
Net cash used in operating activities	-757	-1,049	852	1,337
Net cash used in investing activities	-399	-1,042	-2,281	-733
Net cash generated from financing activities	804	817	243	608
Effect of exchange gains (losses) on cash and cash equivalents	-42	11	-40	3
Total	**-394**	**-1,263**	**-1,226**	**1,215**

Source: Consolidated Financial Statements

5.4 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent					
	Share capital	**Share premium**	**Reserves**	**Retained earnings**	**Currency translation reserve**	**Total equity**
Balance as at 31 December 2011	**25,056**	**89**	**2,494**	**-17,455**	**-727**	**9,457**
Profit for the period	0	0	0	804	0	804
Other comprehensive income	0	0	0	0	38	38
Total comprehensive income	**0**	**0**	**0**	**804**	**38**	**842**
Offsetting losses	0	-89	-651	740	0	0
Decrease of the nominal value of share	-17,897	0	1,182	16,715	0	0
Equity-settled share-based transactions	0	63	0	0	0	63
Equity instrument classification to liability	0	0	-250	0	0	-250
Acquisition of non-controlling interest	0	0	0	75	0	75
Sale of investment property: revaluation reserve	0	0	-1,592	1,592	0	0
Balance as at 31 Dec 2012	**7,159**	**63**	**1,182**	**2,471**	**-689**	**10,186**
Profit for the period	0	0	0	102	0	102
Other comprehensive loss	0	0	0	0	-401	-401
Total comprehensive loss	**0**	**0**	**0**	**102**	**-401**	**-299**
Equity-settled share-based transactions (Note 15)	0	125	0	0	0	125
Conversion of bonds to share capital (Note 10)	1,000	496	0	0	0	1,496
Profit for the period	0	0	0	102	0	102
Balance as at 31 Dec 2013	**8,159**	**684**	**1,182**	**2,573**	**-1,090**	**11,508**
Loss for the period	0	0	0	-2,482	0	-2,482
Other comprehensive loss	0	0	0	0	-226	-226
Total comprehensive loss	**0**	**0**	**0**	**-2,482**	**-226**	**-2,708**
Equity-settled share-based transactions	0	31	0	0	0	31
Balance as at 31 March 2014	**8,159**	**715**	**1,182**	**91**	**-1,316**	**8,831**

Source: Consolidated Financial Statements

5.5 KEY FIGURES AND RATIOS

	2013	2012
Comprehensive income data, in thousands		
Revenue	58,353	56,332
Gross profit	31,215	30,717
EBITDA	2,252	3,725
Operating profit	651	1,959
Profit before income tax	269	1,056
Net profit	102	805
Financial position data, in thousands		
Total assets	24,340	23,516
Interest-carrying liabilities	5,305	6,271
Shareholders' equity	11,508	10,186
Other data		
Number of stores	124	113
Sales area in the end of period, sqm	23,852	22,210
Number of employees (31 Dec)	1,345	1,288
Key ratios		
Revenue growth	3.6%	5.5%
Retail sales growth	3.6%	5.2%
Share of retail sales in revenue	94%	93%
Share of exports in revenue	66%	68%
Gross margin	53.5%	54.5%
Operating margin	1.1%	3.5%
EBT margin	0.5%	1.9%
Net margin	0.2%	1.4%
Current ratio	1.5	1.8
Debt to equity ratio	46.1%	61.6%
Net gearing ratio	38.7%	41.2%
Inventory turnover	2.09	2.37
ROE	1.0%	8.9%
ROA	0.4%	2.8%
Key share data, EUR		
Number of shares outstanding (31 Dec)	40,794,850	35,794,850
Weighted average number of shares	38,644,165	35,794,850
Share price (31 Dec)	0.55	0.57
Market capitalisation, in thousands (31 Dec)	22,315	20,510
Earnings per share (EPS)	0.00	0.02
Diluted earnings per share (DPS)	0.00	0.02
Change in EPS, %	-87%	111%
P/E	208.2	28.7
Book value per share	0.28	0.28
P/B	1.9	2.1
Dividend per preference share	0	0.05
Interest rate	0%	0%
Preference share dividend payout ratio	0%	0%
Dividend per share	0*	0
Dividend yield	0%	0%
Dividend pay-out ratio	0%	0%

Sales activity key figures	3M and 31 March 2014[1]	3M and 31 March 2013[2]
Revenue (EUR thousand)	12,171	11,675
Retail sales (EUR thousand)	11,109	10,778
Share of retail sales in revenue	91%	92%
Share of exports in revenue	63%	64%
Number of stores	108	96
Sales area at the end of period (sqm)	20,400	19,148
Number of employees (end of period)	1,208	1,177
Gross margin	48.6%	52.1%
EBITDA (EUR thousand)	-513	-17
EBITDA margin	-4.2%	-0.1%
Operating margin	-6.8%	-3.1%
EBT margin	-7.4%	-3.8%
Net margin	-7.5%	-3.8%
Inventory turnover	2.00	2.13
Other ratios[3]		
Current ratio	1.5	1.8
Net gearing ratio	64.0%	65.1%
Return on equity	-23.1%	-6.5%
Return on assets	-10.2%	-2.3%

[1]In connection with Baltika's exit from the Ukrainian retail business, the first-quarter sales activity key figures presents only results of continued operations.
[2]For comparability, the figures for 2013 have been adjusted accordingly.
[3]Other ratios includes impact of continued and discontinued operations.

Source: the Company

Definitions of key ratios

EBITDA= Operating profit-depreciation and amortisation - disposal of fixed assets
Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Debt to equity ratio = Interest-carrying liabilities/Equity
Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity
Inventory turnover = Cost of goods sold/Average inventories1
Return on equity = Net profit (attributable to parent)/Average equity1
Return on assets = Net profit (attributable to parent)/Average total assets1
Market capitalisation = Share price (31 Dec)xNumber of shares outstanding (31 Dec)
EPS = Net profit (attributable to parent)/Weighted average number of shares
DPS = Diluted net profit (attributable to parent)/Weighted average number of shares
P/E = Share price (31 Dec)/EPS
Book value per share = Equity/Number of shares outstanding (31 Dec)
P/B = Share price (31 Dec)/Book value per share
Dividend yield = Dividends per share/Share price (31 Dec)
Dividend pay-out ratio = Paid out dividends/Net profit (attributable to parent)
[1]Based on 12-month average

5.6 MATERIAL CHANGES IN BUSINESS AFTER 31 MARCH 2014

Baltika signed on 29 April 2014 an agreement to sell the shares of the subsidiary TOB Baltika Retail Ukraina to Osaühing Ellipse Group. Osaühing Ellipse Group belongs to Boris Loifenfeld who belonged to Management Board of AS Baltika until 01.12.2011 and worked as adviser in Eastern European matters since then until the transaction. Boriss Loifenfeld holds directly 200,366 AS Baltika shares that is 0.49% and 10.4% of BMIG OÜ, which owns 11.64% of AS Baltika shares (therefore indirectly and directly in total 1.7% of AS Baltika shares). Sales price of the shares was substantially equal to subsidiary's net assets, therefore no profit or loss from the sales transaction was recorded in Group's financial results. A five-year payment schedule was made for Baltika's receivables from TOB Baltika Retail Ukraina in the amount of 1,247 thousand euros. The receivable is secured with movable pledge and its collection is connected with the development of Ukrainian economy and the improvement of the company's results. The impairment made for non-current assets held for sale in the amount of 1,095 thousand euros, according to prudence principle, remains as impairment allowance for the receivable from TOB Baltika Retail Ukraina.

5.7 DEBT OBLIGATIONS OF THE COMPANY

Interest carrying loans and bonds of the Group as at 30 June 2014:

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR or EONIA +4,45%	5,985
Borrowings at fixed interest rate	7.00%	126
Total		**6,111**

From the borrowing 4,986 thousand euros is to Swedbank AS and 999 thousand euros is to Nordea Bank Finland Plc. Unused overdraft limit is 927 thousand euros.

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

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

As at 31 December 2013 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 during 2014.

The Group's collaterals for bank borrowings

Bank borrowings are secured with following asset types:

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

Bank loans set certain level to financial ratios for the Group.

5.8 WORKING CAPITAL OF THE COMPANY

In the opinion of Baltika, the working capital of the Group is sufficient for its present requirements (12 upcoming months). Historical working capital as at dates of balance sheet is presented in the table below. See also current ratio in Key ratio table.

	31.03.2014	**31.12.2013**	**31.12.2012**
in EUR thousands	unaudited	unaudited	unaudited
Working capital	4,794	5,456	6,782

Working capital = Current assets – current liabilities

6 BUSINESS AND FINANCIAL OVERVIEW

6.1 OVERVIEW OF THE PRINCIPAL ACTIVITIES

The Group's business activities are divided into operating segments which are retail (Baltic Region and Eastern Europe), wholesale and e-com and other. Wholesale includes sales under wholesale as well as franchise agreements.

The Group considered different scenarios for Ukraine, due to the complicated situation, and decided in the end of March 2014 to change its model of operation. Management began looking for a partner with knowledge about the Ukrainian market to whom the current Ukrainian retail business could be sold and with whom a long-term franchise agreement could be signed for sustaining a presence in the region. In connection with the intention of disposing of the entity, the assets of the Ukrainian sales organisation, *Baltika Retail Ukraina*, were reclassified to non-current assets held for sale as at 31.03.2014.

In connection with Baltika's exit from the Ukrainian retail business, which represented a major line of business of the Group, the first-quarter results of the Ukrainian entity are presented as discontinued operation from the first quarter of 2014 Consolidated Interim Financial statements. The results of the discontinued operation are reported separately from continuing operations to allow better assessment of the performance of continuing operations. For comparability, the figures for the first quarter of 2013 have been adjusted accordingly.

Baltika's 2014 first quarter sales increased by 4%. Sales of clothing in wholesale channel showed 15% growth, e-channel 67% growth and retail growth was 3%. Retail sales proportion from sales was 91%, from which 83% is retail sales in Baltic countries.

in EUR thousands	Q1 2014 unaudited	Q1 2013 unaudited	2013 audited	2012 audited
Retail	11,109	10,778	54,592	52,665
Wholesale and e-com	1,026	874	3,635	3,018
Other	36	23	126	649
Total	12,171	11,675	58,353	56,332

Source: the Company

2013 first half-year retail revenue showed strong growth (8%) which in the second half-year slowed down (0%). Meanwhile wholesale and e-com sales growth thrived (first half-year 6%, second half-year 33%). While the first half-year of 2013 met the expectations of the Company, then the negative second half-year developments in Ukraine and Russia with very weak third quarter result did not allow to consider the yearly financial result sufficient.

Baltika signed a franchise agreement

Baltika signed a franchise agreement on 13th of March with Spanish enterprise Mirworld Organization, who will open the first Monton brand store in Tenerife, in August 2014. Spain is the second country that Baltika enters with its brand as franchisor. The first two Monton franchise stores were opened in Belarus in 2013.

There have been no other notable changes in products, production, sales, inventory and expenses, sales prices and volumes, contractual ordering until the date of the Prospectus not disclosed herein.

Baltika has currently no reason to expect significant changes to the market position of the Group by the end of 2014 except for possible changes in Russia outside St. Petersburg and Kaliningrad area. The liquidity and financial position in the short-term of the Group should strengthen by the end of the financial year with the issuance of Bonds.

6.2 OVERVIEW OF THE MARKETS AND STORES

Group had 125 stores in the end of the first quarter of 2014, among which 2 franchise stores in Belarus and 17 stores in Ukraine, which belong to discontinued operations. The number of stores of continuing operations did not change with the first quarter of 2014, but the average operating area in the quarter has increased by 7%.

Stores by market

	31 March 2014	31 March 2013	Average area change*
Estonia	37	35	9%
Lithuania	28	27	3%
Latvia	21	16	15%
Russia	20	18	2%
Ukraine[1]	17	16	10%
Belarus[2]	2	0	-
Total stores	**125**	**112**	
Total sales area, sqm	**23,735**	**22,193**	**7%**

Source: Consolidated Financial Statements

2013 year total investment into retail network amounted to 1,873 thousand euros. Investments were made into over 30 stores in different capacities. Among them 17 new stores were open: 4 in Estonia, 1 in Lithuania, 6 in Latvia, 3 in Russia and 3 in Ukraine.

Retail network by market and brand, 31st December 2013

	Estonia	Lithuania	Latvia	Russia	Ukraine	Total	+/- vs 2012
Monton	7	7	4	8	9	**35**	4
Mixed brands	3	4	4	7	2	**20**	-1
Mosaic	10	9	4	3	7	**33**	0
Baltman	5	6	2	0	0	**13**	1
Ivo Nikkolo	5	2	4	0	0	**11**	2
Bastion	6	0	1	0	0	**7**	0
Blue Inc	1	0	2	0	0	**3**	3
Outlet	2	0	0	0	0	**2**	2
Total	**39**	**28**	**21**	**18**	**18**	**124**	**11**
m2	6,965	5,633	3,829	4,014	3,407	**23,852**	1,642

Source: Consolidated Financial Statements

In 2013 competition tightened in the Baltic countries in both premium and regular fashion brand categories. Newcomers opened stores, replacing retailers that were exiting the market, but also on new sales areas as many shopping centres, mostly in Estonia and Latvia, increased their sales areas.

Baltika Group's biggest retail market continues to be Estonia. Due to investments into Baltic region the percentage of Baltic countries from total retail sales has continued to increase – 72% in 2013 is three percentage points more than in prior year (2012: 69%). The proportion of Baltic region has steadily increased over the past five years - 13 percentage points (2009: 59%).

Retail sales by market

EUR thousands	2013	2012	+/-	Share
Estonia	18,292	16,281	12%	34%
Lithuania	11,133	10,895	2%	20%
Russia	8,917	9,826	-9%	16%
Latvia	9,726	8,922	9%	18%
Ukraine	6,524	6,742	-3%	12%
Total	**54,592**	**52,665**	**4%**	**100%**

Source: the Company

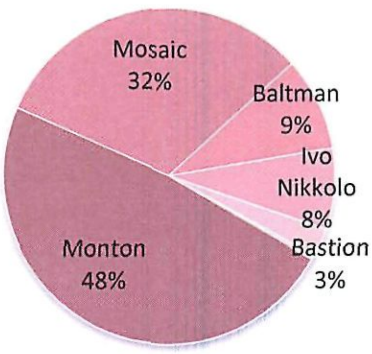
6.3 OVERVIEW OF BRANDS

In the first quarter of 2014 the largest brand based on retail sales continues to be Monton (46%), followed by Mosaic (29%). Monton's growth was hindered by substantial sales decline in Russia, which has been the largest distributor for Monton so far. In Baltic countries the sales of Monton grew by 13% compared to first quarter of last year. Sales of Mosaic remained on the same level as previous year.

Premium brands portion of Baltika's revenue increased in year 2013. Baltman, Ivo Nikkolo and Bastion constitute 20% of retail revenue (2012: 17%).

In terms of brands, most of Baltika Group retail revenue is continuously contributed by Monton, whose sales for 2013 accounted for 48% of the total retail revenue (2012: 55%). The second largest brand is Mosaic with 32%, Baltman's and Ivo Nikkolo's share is 9% and 8% accordingly. The Bastion brand, which was added to the Group in the end of year 2012, makes up 3% of retail revenue in 2013.

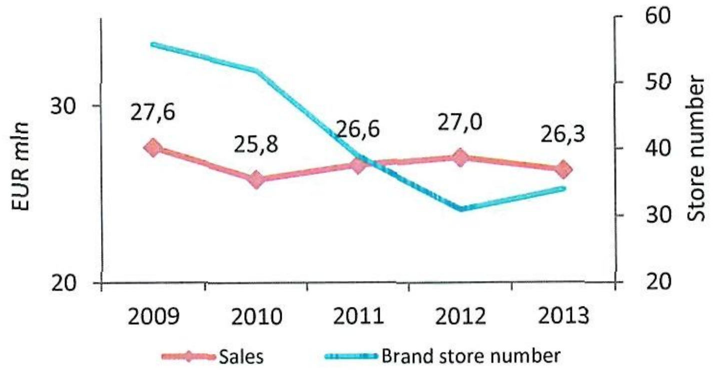
Breakdown of retail sales by brand – 2013



Monton

In 2013 retail sales of Monton totalled 26,275 thousand euros. Compared to 2012, sales decreased by 3%. Sales area increased mostly in Latvia, where in addition to flagship store in Galerija Centrs in Riga a new store was also opened in Galleria Riga.

Monton retail sales



Monton's largest market continues to be Russia, which accounts for 26% of retail sales of the brand. This is also one of the reasons why Monton brand was most affected from the decrease of sales volumes in 2013.

Monton brand sales increased nicely in the spring-summer period from April to July where climate and collections were aligned. Starting from August, the unseasonably warm weather started to affect sales, decreasing demand for autumn/winter collections, particularly for outerwear.

Gross margin was adversely affected by low sales as well as by additional promotions of outerwear.

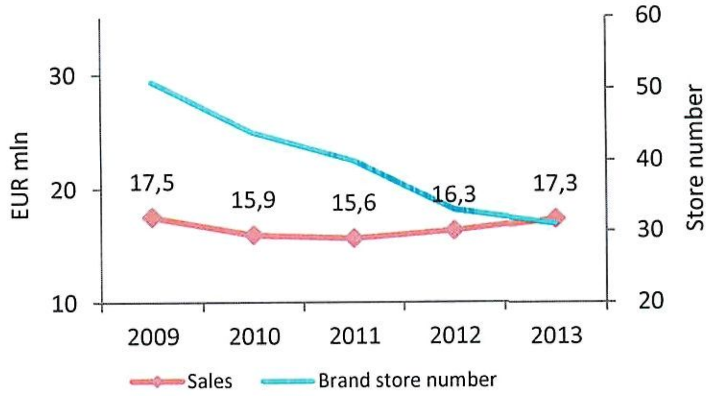
While in Baltic countries the women's wear sales were down by 2% from prior year then men's fashion managed to increase sales by 6%.

Monton sales were supported in the fourth quarter by sales of fans collection made for the 2014 Sochi Winter Olympics.

Mosaic

2013 retail revenue of Mosaic reached 17,280 thousand euros that signifies 6% improvement over the year. Mosaic had best efficiency growth figures from Baltika's brands. The largest market for the brand is Estonia, which makes up 35% of total retail sales of all the brands.

Mosaic retail sales



Based on efficiency figures, Mosaic is strongest on Latvian market, where the sale per square metre significantly exceeds that of all other markets (41% higher sales efficiency than the second best, Estonian market). Latvian market was the one to open the first Mosaic new concept store in Spice shopping centre in Riga.

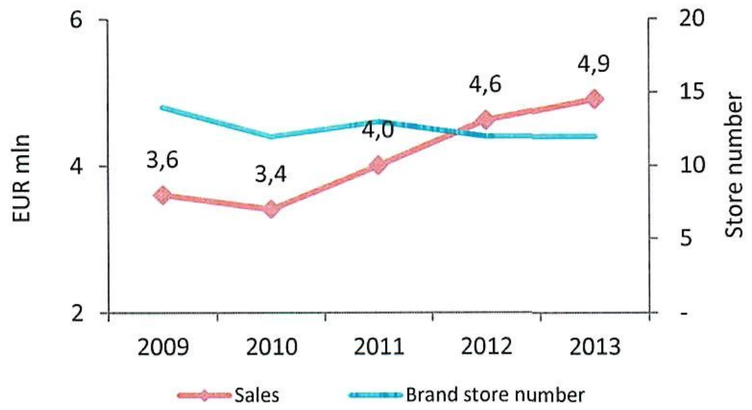
During 2013 Mosaic focused on new sales strategy, which involves offering customers pre-composed product sets. "Perfect set" campaign that focused on offering smart office-wear sets, supported sales also through the weak 3rd quarter in 2013. Mosaic recorded strong sales growth throughout the year, except for August and September. Gross margin was in line with the previous year. Revenue was strongest in the Baltic market, where growth by quarters was 11%, 11%, -3% and 7%.

Baltman

Baltman retail sales totalled 4,898 thousand euros in 2013, which is an increase of 6% compared to 2012. Baltman remains to hold the title of Baltika's brand with highest sales efficiency.

Largest market for Baltman is Estonia, making up 53% of total retail revenue of the brand. For Baltman, Estonian market is also the most successful in regard of the sales efficiency.

Baltman retail sales



Baltman brand reported increased sales throughout the year 2013, benefitting from continued improvements of the product collections and from wider product offer, acted out in cooperation with third parties and also under the brand collection itself. More diverse offer helps to adapt to changing trends in consumer habits, like for example the decline in demand for classical business suits. Non-suit items sales increased by 19% over the year 2013.

Baltman unveiled an exciting new store concept modelled around the concept of a tailor's studio. New concept stores opened in Vilnius and in Tallinn give further support to the growth of the rejuvenated Brand.

Batman's head designer, Antonio, received the highest recognition in the Estonian fashion world – the Golden Needle award for his work with Baltman's menswear collections, bringing fresh style and smart sense of fashion to the label. According to author, Antonio's special Baltman Limited Edition collection, which was created for the Golden Needle, represents the essence of his work so far. Baltman team is proud of its head designer and is looking forward to new developments and collections.

Ivo Nikkolo

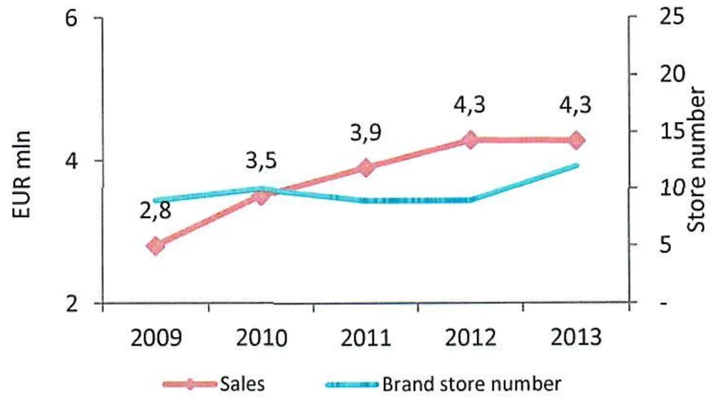
Retail sales of Ivo Nikkolo totalled 4,274 thousand euros in 2013 which is at the same level as in year 2012.

Ivo Nikkolo stores remain to be represented only in Baltic countries, while through multibrand concept

stores its products are also available in Eastern-European region.

Largest increase in sales area and sales took place on Latvian market. Two new stores were open in 2013 – in Galleria Riga and Alfa shopping centres.

Ivo Nikkolo retail sales



Sales of 2013 of Ivo Nikkolo suffered in the first quarter due to some inconsistencies in the product collection that were corrected during second and third quarter. However, the benefit of these improvements was not sufficient to offset the sales lost through supressed demand for outerwear in autumn. Excluding outerwear, on the third quarter Ivo Nikkolo sales were on the same level as in prior year and grew by 4% during fourth quarter. Meanwhile outerwear sales in the same period fell by 8% and 3% respectively.

Gross margin decreased by 3 percentage points over the year mainly due to larger discounts for spring garments during the summer sale period. Margins were back on track in the fourth quarter.

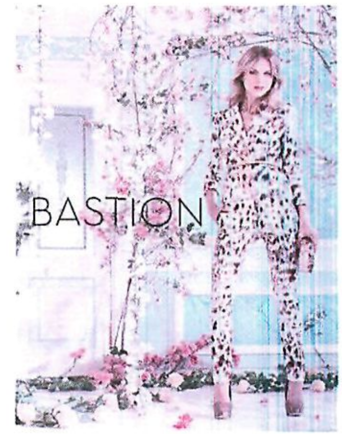
Bastion

Retail sales of Bastion were 1,491 thousand euros in 2013 – its first full year in Baltika Group.

The main focus during 2013 was to integrate the Bastion team into Baltika and to deliver improvements in collection integrity and availability in stores.

Sales results show that work with marketing and addition of new product categories within the overall offer have paid off in the second half-year of 2013.

The objective for 2014 is to open first new store while under Baltika Group. The store will carry the new store concept.



6.4 WHOLESALE

The strategic direction of finding new partners to increase sales through both wholesale and franchise contracts began with first efforts in 2012. The year of 2013 already showed the first results of this work – wholesale increased by 16% to 3,362 thousand euros.

In 2013 Baltika signed its first franchise agreement as a franchisor; therefore from the second half-year of 2013 the wholesale report includes sales of Monton collection to Belarusian franchise partner. The first Monton franchise stores were opened in October in Minsk. According to plan with franchise partner, in the next five years at least five Monton stores, with a sales area of 150-250 sqm, will be opened in Belarus. Wholesale of Bastion brand was started in second quarter of 2013. Wholesale was also supported by sales to the Estonian Police Board under a public procurement contract. Cooperation was also started with a new retail chain in Russia.

Mosaic portion of wholesale has decreased (due to increase of wholesale volumes of the other brands), but still makes up more than half of total wholesale. The sales of Mosaic collection increased during the year 2013 – sale to Finland was launched in the third quarter, through new wholesale partners.

Future developments are mainly focused around Monton, Ivo Nikkolo and Mosaic brands. To increase the traditional wholesale, Baltika is looking to develop the cooperation with existing partners in Finland and Germany, while also seeking out for additional wholesale partners on current and new markets.

Monton e-store increased its sales in 2013 by 128%, compared to 2012.

Monton e-shop dispatched orders to 24 European countries in 2013. Pre-ordering of Monton fans collection for 2014 Sochi Winter Olympics turned out as a success and the products from internationally acclaimed collection by Monton were sold to approximately 20 different countries.

Monton e-store celebrated its second year anniversary in February 2014. A number of improvements are planned in various areas of e-store in 2014 to offer a more flexible shopping experience. By the end of 2014 other brands of Baltika are planned to be made available to customers through the e-channel.

6.5 FINANCIAL PERFORMANCE

Baltika's 2014 first quarter gross margin was 48.6% that is 3.5 percentage points down from a year ago. The slide in the margin is partly attributable to weak sales caused by the problems prevailing in the Russian market, which have been magnified by the weakening of the rouble against the euro. The gross margin for the Russian market dropped by 5.5 percentage points year over year. In the Baltic region, prices remain under strong pressure due to heightening competition and growth in retail space. Total 2014 the first quarter gross profit amounted to 5,917 thousand euros, decreasing 3%.

Company's gross margin was 53.5% in 2013, which is one percentage point lower than last year (2012: 54.5%). The slide in the margin is attributable to problems in Russian and Ukrainian markets and weak sales results in the third quarter due to which the stock was realized in the fourth quarter with lower margins than planned. There was also price pressure due to tighter competition and growth of sales area in the Baltic countries. Gross profit for 2013 totalled 31,215 thousand euros increasing by 498 thousand euros i.e. 2%.

Baltika's 2014 first-quarter net loss from continuing operations amounted to 910 thousand euros compared with a loss of 439 thousand euros a year ago. At 31 March 2014, the assets of Baltika Retail Ukraina totalled 1,095 thousand euros, consisting of inventories, lease prepayments and non-current assets, and liabilities approximately in the same value, consisting mainly of trade payable to Baltika for merchandise. Because of the unstable situation in the region, the Group wrote the subsidiary's assets down by 1,095 thousand euros. The 2014 first-quarter loss of the discontinued operation amounted to 1,572 thousand euros, including the loss of 1,095 thousand euros resulting from the write-down of its assets. Thus, the Group's total first-quarter loss amounted to 2,482 thousand euros.

Baltika Group year 2013 profit before tax was 269 thousand euros and net profit 102 thousand euros. The operating expenses were under control and with reduction in debt level the financial expense decreased, which in total resulted in profit.

6.6 FINANCIAL POSITION

As at 31 March 2014, Group inventories totalled 12,410 thousand euros. Inventory has decreased compared to last year end by 1,341 thousand euros. Considerable part of decreased inventories is related to reclassification of Ukrainian assets into non-current assets held for sale. Compared to year-over-year the inventories increased by 955 thousand euros i.e. 8%. Increase of inventory is mainly due to larger number of stores. The first quarter average sales area was 7% bigger, than in same period last year.

Property, plant and equipment at cost increased by 327 thousand euros, depreciation was 281 thousand euros. Fixed assets residual value decreased by 214 thousand euros compared to last year-end. 311 thousand euros were invested into retail network.

The first quarter of 2014 cash-flow from operating activities was -757 thousand euros (I quarter 2013: -1,049 thousand euros). Investment program continued and 399 thousand euros were contributed to investment activities. Bank loan repayments was made in amount of 274 thousand euros, at the same time overdraft used limit increased by 1,090 thousand euros. The first quarter net cash outflow was 352 thousand euros (I quarter 2013: -1,274 thousand euros).

Due to higher needs of financing in the first quarter caused by production cycle and negative cash flow from operating activities, as at 31 March 2014 the Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 5,652 thousand euros, which has increased by 1,199 thousand euros compared to the end of last year. The net debt to equity ratio was 64% as at 31 March 2014 (31.12.2013: 39%). Compared to the figure at same point of seasonal cycle as at 31 March 2013 when it was 65%, the ratio has improved. The ratio was impacted by discontinued operations related to sale of Ukrainian company.

6.7 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment consists mainly of retail network related fixed assets.

The Group does not hold nor rent under finance lease land or buildings in significant amount.

Property, plant and equipment decreased by 164 thousand euros due to reclassification of property, plant and equipment in Ukrainian market under assets held for sale.

Property, plant and equipment at net book value

In EUR thousands	31.03.2014 unaudited	31.12.2013 audited
Buildings and structures	824	926
Machinery and equipment	637	725
Other fixtures	1,347	1,372
Prepayments, PPE not yet in use	1	0
Total	**2,809**	**3,023**

Source: Consolidated Financial Statements

Buildings and structures by segments:

	31 March 2013
Retail, Baltic region	634
Retail, Eastern Europe	162
Assets in parent company and production company	28
Total	**824**

6.8 FINANCIAL LIABILITIES

Borrowings

	31 March 2014 unaudited	31 Dec 2013 audited
Current borrowings		
Current portion of non-current bank loans	1,316	2,341
Current bank loans	949	652
Current portion of finance lease liabilities	36	39
Other current loans	126	126
Total	**2,427**	**3,158**
Non-current borrowings		
Non-current bank loans	3,575	2,031
Non-current finance lease liabilities	108	116
Convertible bonds, share options	24	24
Total	**3,707**	**2,171**
Total borrowings	**6,134**	**5,329**

In the first quarter of 2014 the Group signed an annex under an existing facility agreement, which prolonged repayment dates for loans and increased the overdraft limit in the amount of 1,4 million euros. The same annex provides the overdraft increase and decrease according to the seasonality.

Financial liabilities by maturity at 31 March 2014, unaudited

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans	5,966	2,670	3,690	6,360
Finance lease liabilities	144	40	123	163
Convertible bonds	24	0	24	24
Trade payables	4,584	4,584	0	4,584
Other financial liabilities	4	4	0	4
Total	**10,722**	**7,298**	**3,837**	**11,135**

Financial liabilities by maturity at 31 December 2013, audited

	Carrying amount	Undiscounted cash flows[1] 1-12 months	1-5 years	Total
Loans	5,150	3,346	2,158	5,504
Finance lease liabilities	155	42	135	177
Convertible bonds	24	0	24	24
Trade payables	4,966	4,966	0	4,966
Other financial liabilities	2	2	0	2
Total	**10,297**	**8,356**	**2,317**	**10,673**

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

Source: Consolidated Financial Statements

Net gearing ratio

	31 March 2014 unaudited	31 Dec 2013 audited
Interest carrying borrowings	6,110	5,305
Cash and bank	-458	-852
Net debt	5,652	4,453
Total equity	8,831	11,508
Total capital to net debt ratio	**64%**	**39%**

Source: Consolidated Financial Statements

The Group's strategy is to maintain the capital to net gearing ratio under 50%. The ratio was not achieved as Baltika needed to increase use of overdraft facilities.

Contingent liabilities

The Group's material contingent liabilities relate to non-cancellable operating leases.

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

The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements which stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation.

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31 Dec 2013 audited	31 Dec 2012 audited
Up to 1 year	4,738	5,192
1-5 years	5,506	7,001
Over 5 years	2,110	2,821
Total	**12,354**	**15,014**

6.9 INVESTMENTS

The Company's investment activities can be divided into two: retail network (all investments related to stores) and all other. The volume of the investments depends on strategic decisions and financing opportunities.

Investments into retail network totalled 1,873 thousand euros in 2013, which is the highest amount of yearly retail investment since 2009. Baltika invested, in different amounts, into more than 30 stores. That includes opening of 17 new stores. Group's property, plant and equipment at cost value increased by 2,131 thousand euros. Depreciation in 2013 was 1,281 thousand euros and in total, the fixed assets residual value increased by 767 thousand euros, compared to last year-end.

Investing decision making process

All investment decisions are centrally approved. The allocation of funds for proposals received is made based on return on investment analysis. For retail investments there is maximum payback time requirement for the investments to be considered. Renovation of existing stores and investments into stores with faster payback period are prioritised when making the allocation of funds for investments. As the investment decisions need to be made in rapidly changing environment and are highly dependable on the funds available, the Group has no fixed investment policy.

Investment plan

In accordance with the information made public through announcement on NASDAQ OMX Tallinn on 02 August 2012, Company planned to invest in the existing retail network and new stores 5,000 thousand euros. 3,000 thousand euros were invested until 2013 and the additional 2,000 euros should be invested in 2014 and 2015.

While the initial investment plan foresaw that 2013 positive cash-flow provides for the required investments then below planned results necessitated the need to work out 2014 financing plan, which includes both bank and investors as the amounts needed to be invested in 2014 and 2015 have not changed from the time of first publication of information. On Company's Annual General Meeting of Shareholders on 28 April 2014 the Offering and the related share capital increase was approved.

Competition has tightened in the Baltic countries and Baltika's investments focus in 2014 will be upgrading the existing retail network in the region. In 2015 Baltika's focus will remain in Baltic countries, with the portion of investment allocated to opening new stores to be higher in 2015 compared to 2014 with current opening plans involving Latvia and Estonia. Current investment plan foresees 2.5 million euros to be invested in 2014 and 2015.In line with the strategy to develop other channels approximately 0.5 million euros will be invested in computer software and property, plant and equipment to improve the process related to sales through other channels, including for making all Baltika's brands available through e-store.

The purpose of the Offering is to obtain additional financing for carrying out the investment plan.

7 COUNCIL AND MANAGEMENT BOARD

Pursuant to the provisions of the Estonian Commercial Code and the Company's Articles of Association, the control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Council (the "Council") and the Management Board (the "Management Board").

7.1 COUNCIL

The Council is responsible for planning the business activities of the Company, organising the management of the Company and supervising the activities of the Management Board. The Council reports to the General Meeting of Shareholders.

According to the Company's Articles of Association, the Council comprises of three (3) to seven (7) members. Members of the Council shall be elected by the General Meeting for three (3) years. The members of the Council shall elect a chairman from among themselves who shall organise the activities of the Council. Meetings of the Council shall be held when necessary but not less frequently than once every three (3) months.

According to the Company's Articles of Association, the Council has the competence to:

1) Determine the agenda of the General Meeting;
2) Review the annual report and prepare a report concerning it which shall be presented to the General Meeting of Shareholders;
3) Review, once every four months, the overview of the economic activity and economic situation of the Company presented by the Management Board;
4) Deliver to the General Meeting of Shareholders a proposal in respect of each item on the agenda;
5) Elect and recall members of the Management Board;
6) Determine the amount and procedure for the payment of remuneration to the members of the Management Board;
7) Appoint and remove a procurator;
8) Approve the annual budget of the Company;
9) Decide on the conclusion of a transaction between the Company and a member of the Management Board of the Company, determine the terms and conditions of this transaction and decide on having legal disputes with Management Board members and appoint a representative of the Company in such transaction or legal dispute.

A meeting of the Council shall have a quorum if more than one half of the members of the Council participate. A resolution of the Council shall be adopted if more than one half of the members of the Council who participate in the meeting vote in favour. Each member of the Council shall have one vote. In 2013 there were six (6) Council meetings and most of the Council members attended meetings of the Council.

The Council of Baltika has been elected by the ordinary general meetings of shareholders on 20 April 2012 and it comprises of five (5) members.

At the date of this Prospectus the members of the Council are:

JAAKKO SAKARI MIKAEL SALMELIN

Member of the Supervisory Council since 21.06.2010, Chairman of the Council since 23.05.2012
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Chairman of the Board of Amiraali Invest Oy
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.
Member of the Board of BPT Secura
Member of the Board of UAB " D Investiciju Valdymas"
Member of the Board of KJK Invest Oy
Member of the Board of Cemacon SA
Previous other assignments within last three years: Member of the Management Board of KJK Fund II Sicav-SIF, Member of the Supervisory Board of AS "Latvijas kugnieciba", Member of the Board of Snaige AB,.
Baltika shares 30 June 2014: 0

TIINA MÕIS

Member of the Supervisory Council since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Council of AS Nordecon International,
Member of the Supervisory Councils of AS LHV Pank and AS LHV Group,
Member of the Board of Estonian Chamber of Commerce and Industry,
Member of Estonian Accounting Standards Board.
Previous other assignments within last three years: Member of the Supervisory Council of AS Rocca al Mare Kool, Member of the Supervisory Council of AS Haabersti Jäähall
Baltika shares 30 June 2014: 977,837 shares (on AS Genteel account)

REET SAKS

Member of the Supervisory Council since 25.03.1997
Attorney at Raidla Lejins & Norcous Law Office
Degree in Law, University of Tartu
Other assignments:
Member of the Management Board of MTÜ International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group.
Baltika shares 30 June 2014: 0

LAURI KUSTAA ÄIMÄ

Member of the Supervisory Council since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,

Member of the Board of Oy Tallink Silja Ab,
Member of the Board of KJK Invest Oy,
Member of the Board of Aurejärvi Varainhoito Oy,
Member of the Board of UAB Malsena Plius,
Member of the Board of Bostads AB Blåklinten Oy,
Member of the Supervisory Council of Salva Kindlustuse AS,
Member of the Supervisory Council of AS Premia Foods,
Member of the Supervisory Council of AS Premia Tallinna Külmhoone AS,
Member of the Supervisory Council of Managetrade OÜ,
Member of the Supervisory Council of Toode AS,
Vice-chairman of the Board of AAS BAN,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund, SICAV-SIF,
Chairman of the Management Board of KJK Fund II SICAV-SIF,
Chairman of the Supervisory Council of JSC Rigas Dzirnavnieks,
Chairman of the Board of Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy.
Member of the Nominations Committee of Kitron ASA
Previous other assignments within last three years: Member of the Supervisory Council of AS PKL,Member of the Board of UAB Litagra, Chairman of the Audit Committee of AB Snaige, Member of the Audit Committee of AB Sanitas.
Baltika shares held on 30 June 2014: 24 590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Council since 20.04.2012
Chairman of the Board of AS EMT
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Chairman of the Board of AS Eesti Telekom
Baltika shares 30 June 2014: 0

The information in this Prospectus regarding the members of the Council and Management Board is an indication of the principal activities performed by them outside the Company where these are significant with respect to the Company.

7.2 MANAGEMENT BOARD

The Management Board manages the Company's daily business operations. According to the Company's Articles of Association, the Management Board is the management body of the Company which represents and directs everyday activities of the Company. The Board shall adopt all resolutions concerning activities of the Company and shall independently execute all transactions which are not placed within the competence of the general meeting of shareholders or the Council by the law and Articles of Association. The Management Board shall consist of three (3) to seven (7) members who shall be elected by the Council for three (3) years. The members of the Management Board shall elect a chairman of the Management Board from among themselves. The chairman of the Management Board shall organise work of the Board and direct everyday activities of the Company pursuant to law and according to the requirements of the Articles of Association.

The Management Board of Baltika currently comprises of five (5) members. As at the date of this Prospectus, the Chairman of the Management Board is Meelis Milder.

At the date of this Prospectus the members of the Management Board are:

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 30 June 2014: 746,531 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 2014: 0

MAIRE MILDER

Member of the Management Board, Branding and Retail Developing Director
Member of the Board since 2000, in the Group since 1999
Degree in Biology and Geography, University of Tartu
Baltika shares 30 June 2014: 316,083 shares (thereof 30,000 shares on Maisan OÜ account) [1]

ANDREW J. D. PATERSON

Member of the Management Board, Commercial Director
Member of the Board since 2008, in the Group since 2003
Baltika shares 30 June 2014: 11,000 shares

KATI KUSMIN

Member of the Management Board, Sales and Marketing Director
Member of the Board since 2012, in the Group since 2012
Previous other assignments within last three years: Chairman of the Management Board of Eesti Tarbijate Keskühistu.
Degree in Economics, Tallinn University of Technology
Baltika shares 30 June 2014: 0

[1]Management Board members hold additionally the shares of Baltika through the holding company OÜ BMIG (see the section 8.2 "Shareholders") – OÜ BMIG is owned by Meelis Milder 32.3%, Maire Milder 32.3%, entity controlled by Meelis Milder 15.9%; OÜ BMIG owns 11.64% shares of Baltika. Additional information on members of Council and Management Board

The members of the Council and Management Board are not having any family relationship between any of those persons, except for Meelis Milder and Maire Milder, who are married.

No member of the Council or the Management Board has had any interest in transactions effected by the Company or its subsidiaries, which are unusual in their nature or which contain unusual terms or conditions, during the financial years ended on 31 December 2013, 2012. The Company is not aware of any potential conflicts of interest between the duties of the above mentioned persons to the Company and their private interests or other duties.

The Company is not aware of any convictions in relation to fraudulent offences or any official public incrimination and/or sanctions with respect to the members of its Council or Management Board or other key executives.

The Company is not aware of any bankruptcy proceedings initiated against the members of its Council or Management Board.

No member of the Council or Management Board has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of the Company or from acting in the management or conduct of the affairs of any other company.

7.3 SHAREHOLDING OF THE MANAGEMENT BOARD MEMBERS

The members of the Management Board hold as of 30 June 2014 the ordinary shares of the Company with voting rights as follows:

	Ordinary shares (listed)	
	No of shares	**Shareholding**
OÜ BMIG	4,750,033	11.64%
Meelis Milder	746,331	1.83%
Maire Milder	316,083	0.77%
Andrew Paterson	11,000	0.03%
Close family members of Management Board members	8,100	0.02%
Total OÜ BMIG and Management Board members	**5,831,547**	**14.29%**
Baltika share capital	**40,794,850**	**100%**

Source: the Company

According to the Management Board's knowledge no additional shareholdings above 5% are held by the Management Board members directly or indirectly through nominee account.

Management Board members among other key employees of AS Baltika hold I-bonds which give the right to subscribe 01.07-31.12.2015 for AS Baltika shares with 0.36 euros issuance price.

8 SHARE CAPITAL AND OWNERSHIP STRUCTURE

8.1 GENERAL INFORMATION ON BALTIKA SHARES

Baltika has 40,794,850 shares. The share capital is 8,158,970 euros. The share grants its owner the right to participate in the general meeting of shareholders of the Company, in the distribution of profit and, upon dissolution of the Company, in the distribution of the remaining assets, as well as other rights prescribed by law or the Articles of Association. The share grants its owner one (1) vote at the general meeting of shareholders of the Company. The shares have equal voting rights and equal right to receive dividends.

Information on listed ordinary shares

NASDAQ OMX symbol: BLT1T
ISIN: EE3100003609
Minimum trading quantity: 1
Number of shares: 40,794,850
Nominal value of shares: 0.20 euro
Voting rights per share: 1 vote

Pursuant to the Articles of Association approved by the ordinary general meeting of shareholders of 20 April 2012 the maximum share capital of the Company may be 20,000,000 euros.

8.2 CONVERTIBLE BONDS AND CHANGES IN THE SHARE CAPITAL

Changes in share capital

Date	Issue type	Issue price, EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.12.2011				**35,794,850**	**25,057**	**89**
11.05.2012	Decrease of share nominal value				-17,898	-89
31.12.2012				**35,794,850**	**7,159**	**63**
16.07.2013	Conversion of H-bonds to shares	0.3	5,000,000	**40,794,850**	1,000	496
31.12.2013				**76,589,700**	**8,159**	**684**
31.03.2014				**76,589,700**	**8,159**	**684**

Source: the Company

On 6 June 2013 related party, KJK Fund, Sicav-SIF (currently owns 30.86% of AS Baltika shares), submitted a request to exchange convertible H-bonds for shares.

In August 2013 the H-bonds were converted into shares. As the result of the conversion – the borrowings, that had become current borrowings at the moment of request, decreased by 1,500 thousand euros. Equity increased in the same amount: share capital by 1,000 thousand euros and share premium by 500 thousand euros. After the registration of new shares AS Baltika has 40,794,850 ordinary shares with the nominal value of 0.2 euros per share.

Convertible bonds

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

Therefore the share capital of Baltika may increase by 470,000 euros, which is 5.8% of current share capital.

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

Source: the Company

Changes in share capital from convertible instruments outstanding

Date	Issue type	Issue price EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.03.2014				**40,794,850**	**8,159**	**1,182**
31.12.2015*	Conversion of I-bonds	0.36	2,350,000	**43,144,850**	**8,629**	**1.559**

*Potential transaction without other transactions

8.3 SHAREHOLDERS

The largest shareholder of Baltika is KJK Fund, Sicav-SIF (shares on ING Luxembourg S.A. nominee account), which owned 30.86% of ordinary shares as at 31 March 2014.

As at 31 March 2014 the members of the Management Board controlled directly or through companies under their control 14.29% of ordinary shares of Baltika.

No shares are held by or on behalf of Baltika or any of the companies in the Group.

Major shareholders as at 30 June 2014

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	6,466,215	15.85%
3. BMIG OÜ*	4,750,033	11.64%
4. SKANDINAVISKA ENSKILDA BANKEN S.A.	3,414,700	8.37%
5. Svenska Handelsbanken clients	1,625,000	3.98%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	746,331	1.83%
Maire Milder	316,083	0.77%
Andrew Paterson	11,000	0.03%
Persons related to members of Management Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	9,864,047	24.18%
Total	**40,794,850**	**100.00%**

*BMIG OÜ is controlled by members of Management Board
Underlying source: the ECRS

Source: Consolidated Financial Statements

8.4 RIGHTS ATTACHED TO THE SHARES

Pursuant to the Estonian Commercial Code, shareholders exercise their power to decide on corporate matters at general meetings of shareholders. A general meeting is competent to:

1) amend the articles of association;
2) increase and reduce share capital;
3) issue convertible bonds;
4) elect and remove members of the council;
5) elect an auditor;
6) designate a special audit;
7) approve the annual report and distribute profit;
8) decide on dissolution, merger, division or transformation of the public limited company;
9) decide on conclusion and terms and conditions of transactions with the members of the council, decide on the conduct of legal disputes with the members of the management board or council, and appointment of the representative of the public limited company in such transactions and disputes;
10) decide on other matters placed in the competence of the general meeting by law.

A general meeting may adopt resolutions on other matters related to the activities of the public limited company on the demand of the Management Board or Council. The shareholders shall be jointly liable in the same manner as members of the Management Board or Council for damage caused by resolutions adopted under such conditions on the demand of the Management Board or Council.

The following general overview of regulation is provided with respect to the listed companies.

Pursuant to Article 291 of the Commercial Code, the ordinary general meeting of shareholders must be held within six months after the end of the financial year. The management board can convene an extraordinary general meeting of shareholders when needed. The management board must convene an extraordinary meeting pursuant to Article 292 of the Commercial Code, if the net assets of the public limited company are less than one-half of the share capital or less than the amount of share capital specified in § 222 of the Commercial Code or other minimum amount of share capital provided by law or if required by the council, auditor or shareholder, representing at least 1/20 of the share capital of the company or if it is clearly necessary in the interests of the company. If the management board fails to convene the extraordinary general meeting of shareholders within one month of the receipt of the request, the persons who requested the meeting are entitled to convene an extraordinary general meeting themselves.

Pursuant to Article 294 of the Commercial Code, notices to convene the ordinary general meeting of shareholders or an extraordinary general meeting of shareholders must be given no later than three weeks prior to the meeting. Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the shareholders' register of the company as maintained in the ECRS). If the company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such address. Notices may be sent via regular mail, fax or e-mail, in case it is provided that the letter, fax or e-mail is accompanied by a notice requesting the recipient to immediately confirm the receipt to the management board. However, if the company has more than 50 shareholders, there is no need to send the notice to shareholders and respective notice may be published in at least one national daily newspaper in Estonia. Furthermore, a listed company is obliged to publish the respective notices in the manner that allows quick access by using means of communication and the aforementioned can presumably be deemed to be effective to publish information within the European Union. A listed company must also publish the notice on its Internet homepage. Pursuant to Article 294 of the

Commercial Code, the notice shall include, inter alia, the place and time of the general meeting, the agenda for the same general meeting and the place where it is possible to access documents submitted to the general meeting of shareholders. Pursuant to Article 295 of the Commercial Code, a general meeting shall be held at the seat of the public limited company unless the articles of association prescribe otherwise.

The council of the company determines the agenda for the general meeting of shareholders. If, however, the shareholders or the auditor call a general meeting of shareholders, they also set the agenda for it. The management board or one or more shareholders whose shares represent at least 1/20 of the share capital of the company is entitled to request items be included on the agenda for the ordinary general meeting of shareholders. An issue which is initially not on the agenda of a general meeting may be included on the agenda with the consent of at least 9/10 of the shareholders who participate in the general meeting if their shares represent at least 2/3 of the share capital. Pursuant to Article 296 of the Commercial Code, if the requirements of law or of the articles of association for calling a general meeting are materially violated, the general meeting shall not have the right to adopt resolutions except if all the shareholders participate in or all the shareholders are represented at the general meeting. Decisions made at such meeting are void unless the shareholders with respect to whom the procedure for calling the meeting was violated approve of the decisions.

The organ or person, on whose initiative the general meeting was convened, must provide the draft decision for each item in the agenda for such general meeting.

In order to have the right to attend and vote with respect to listed company's general meeting of shareholders, a shareholder has to be on the shareholders list on the cut-off date, which in Baltika is the same date as the date of the general meeting as determined so in the articles of association. In general the shareholders entitled to take part in a general meeting shall be determined as at seven days before the date of the general meeting. A shareholder may appoint his representative, whose authorisation to participate at a general meeting must be documented in writing. Notwithstanding the aforesaid, the participation of a representative shall not deprive the shareholder of the right to participate in the general meeting. Voting rights may not be exercised by a shareholder whose shares are registered in the name of a nominee unless the nominee account holder has given a power of attorney to the shareholder.

A general meeting of shareholders is capable of passing resolutions in case more than half of the votes represented by shares held by shareholders are present at the meeting, unless higher threshold is set forth with the articles of association, The Company has not set higher threshold for the quorum. If the meeting has no quorum, the Management Board must call not earlier than seven days after the previous meeting and not later than three weeks after the previous meeting a new general meeting of shareholders which shall take place not earlier than three weeks from the notice, and the next meeting shall be subject to no quorum requirements.

Voting rights

The Company has one class of ordinary shares with the nominal value of 0.20 euros. Each share shall entitle the shareholder to one vote. At a general meeting of shareholders the resolutions require the approval of a majority of the votes represented at the meeting. However, certain resolutions, such as amending the articles of association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division, reorganisation or liquidation of the company, require a majority of 2/3 of the votes represented at the general meeting of shareholders. Any issuance of new shares with waiving the existing shareholders' pre-emptive subscription rights requires a majority of at least 3/4 of the votes represented at the meeting. According to Article 235 of the Commercial Code, the rights attached to any class of shares may be amended only by a decision of the general meeting of shareholders which is supported by a qualified majority of 4/5 of all votes attaching to the shares of the company and at least 9/10 of the shareholders whose shares belong to such class of which the rights are amended. Pursuant to

Article 237 of the Commercial Code, the consent of all holders of preference shares is required to adopt a resolution on cancellation or amendment of the preference of preference shares, or on cancellation of preference shares. Upon cancellation of the preferential right, the holders of preference shares shall acquire the right to vote.

Pre-emptive right of shareholder

Under the Estonian Commercial Code, a shareholder has a pre-emptive right to subscribe for the new shares in proportion to the sum of the nominal value or book value of the shareholder's shares. The pre-emptive right of the shareholders may be barred by a resolution of the general meeting which receives at least three-quarters of the votes represented at the general meeting. A shareholder may transfer the shareholder's pre-emptive right to subscribe for shares under the same terms and conditions as a transfer of shares. If a public limited company has several classes of shares and new shares of one or some classes are issued, the holders of the corresponding classes of shares have a pre-emptive right in the subscription of such shares before other shareholders. The management board shall send the resolution of the general meeting to the shareholders who have the pre-emptive right of subscription and who did not participate in the general meeting. The term for subscription of shares with a pre-emptive right shall be two weeks from the adoption of a resolution on increase of share capital unless the resolution of the general meeting prescribes a longer term.

A public limited company may issue, for a conditional increase of the share capital, bonds by a resolution of the general meeting, the holders of which have the right to convert their bonds to shares (convertible bond). If the public limited company issues convertible bonds, the shareholders have the pre-emptive right to subscribe for as upon the increase of the share capital.

Rights to dividends

Under the Estonian Commercial Code, a general meeting of shareholders may authorise the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the management board. The council has the right to make changes to the proposal of the management board before submission to the general meeting. Dividends, if any, should be paid in cash. Upon the consent of the shareholders, dividends may also be paid in other property.

The shareholders decide annually the dividend amount and procedure of payment on the basis of the approved annual report. As a general rule, no interim dividends may be paid in respect of a financial period for which an annual report (together with the audited financial statements) has not yet been approved by the general meeting. However, the articles of association may provide that the management board has the right, upon the consent of the council, to make advance payments to the shareholders on account of the estimated profit after the end of a financial year but before the approval of the annual report, provided that such advance payments do not exceed one-half of the amount that may be distributed among shareholders. Currently the Company's Articles of Association provide for such right of the Management Board.

Dividends may only be paid out from net profit or undistributed profit from previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid to the shareholders if the net assets of the company, as recorded in the approved annual report of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law may not be distributed to the shareholders.

Dividends of companies listed on the NASDAQ OMX Tallinn are paid only to those shareholders (or their nominees) who are entered on the list of shareholders (shareholders' register) as maintained in the ECRS on the respective record date. The NASDAQ OMX Tallinn Rules provide that a listed company is required to disclose information about closing the list of shareholders (fixing the record date) at least nine trading days before the record date. If a general meeting of shareholders adopts a resolution that relates to rights attached to the shares (for example, the declaration of payment of dividends), the record date may not be fixed at an earlier date than ten trading days after the date of the relevant general meeting.

Takeover of shares

Under the Estonian Commercial Code, on the application of a shareholder whose shares represent at least 9/10 of the share capital of a public limited company (majority shareholder), the general meeting of shareholders may decide in favour of the shares belonging to the remaining shareholders of the public limited company (minority shareholders) being taken over by the majority shareholder in return for fair monetary compensation. Such an application is delivered to the management board and may not be withdrawn and its conditions may not be amended to the disadvantage of minority shareholders. The majority shareholder shall determine the amount of compensation payable to minority shareholders. The amount of compensation shall be determined on the basis of the value of the shares to be taken over that these shares had ten days prior to the date on which the notice calling the general meeting was sent out. The management board shall provide the majority shareholder with all the necessary data and documents therefor and with information. Takeover is resolved by the general meeting of shareholders and a resolution on the takeover of shares belonging to minority shareholders shall be adopted if at least 95/100 of the votes represented by shares are in favour.

8.5 DIVIDENDS

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

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

Group did not have constant capital to net gearing ratio under 40% during the financial year 2013 and up to approval of AS Baltika 2013 Annual report on 26 March 2014. Neither had the Group sufficient funds and therefore no dividends were suggested to be paid in 2014.

The issuance of Bonds proceeds are used for investing and therefore will not impact or improve the likelihood to pay dividends in the period of Bonds issuance. Should the Bond-holders decide to convert Bonds to shares the financial position and the indicators mentioned should improve.

No dividends can be paid without the consent of the bank.

9 AUDITOR, LEGAL ADVISER AND MATTERS

9.1 INDEPENDENT AUDITOR

Pursuant to the Estonian Commercial Code, the general meeting of shareholders elects the auditors. The general meeting of shareholders of 28 April 2014 elected AS PricewaterhouseCoopers, Pärnu mnt 15, Tallinn, Estonia, as the auditor of the Company for the financial years ending on 31 December 2014, 2015 and 2016.

The Consolidated Annual Financial Statements of the Group incorporated by reference into this Prospectus were audited by AS PricewaterhouseCoopers.

AS PricewaterhouseCoopers with its registered office in Tallinn (Pärnu mnt 15, 10141 Tallinn) issued an unqualified auditor's opinion on the aforementioned financial statements.

The auditors of AS PricewaterhouseCoopers are members of the Estonian Board of Auditors.

In the period covered by the Consolidated Financial Statements included in this Prospectus, there were no events of resignation or dismissal of an auditor appointed to audit the financial statements of the Company or the Group.

9.2 LEGAL ADVISOR

The Company has used various law firms in different countries throughout the years. The main law firm whose services the Company has used over the years and who is the Company's legal adviser related to the Bond issuance is Advokaadibüroo Raidla Lejins & Norcous, located at Roosikrantsi 2, Tallinn 10119, Estonia..

9.3 LEGAL MATTERS

There have not been initiated against the Company any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering the previous 12 months which may have, or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability.

The nominee account holder Clearstream Banking S.A. from Luxembourg has claimed to the courts that the decision on the issuance of convertible bonds and conditional increase of share capital of the meeting of the ordinary general meeting of shareholders of Baltika on 20 April 2012 was not taken, is void or should be invalidated. Harju County Court and Tallinn District Court found that the shareholders decision was properly taken and is fully legal, no grounds to invalidate the decision. The Supreme Court has decided on 11 June 2014 that the decisions were duly taken and are not void. However, the Supreme Court sent the case back to the district court to answer the question whether there are grounds to invalidate the decision. The Supreme Court gave instructions to the district court to analyse whether the need of the Company to receive additional financing weighs the interests of a shareholder who allegedly has been interested in the emission of convertible bonds. Should the district court decide in favour of shareholder, the Board may have to take some action to have a valid decision of the general meeting of shareholders.

10 INFORMATION INCORPORATED BY REFERENCE

The information and documents are incorporated into this Prospectus by reference. Such information is publicly available at the website of Baltika (www.baltikagroup.com):

- the Company's Articles of Association (http://www.baltikagroup.com/public/files/AGM2012_Baltika_Articles_of_Association.pdf)
- the Company's Interim Financial Statements for the period ended 31 March 2014 (http://www.baltikagroup.com/public/files/Baltika_%20Interim%20report%201Q%202014.pdf)
- the Company's Consolidated Annual Report for the year ended 31 December 2013 (http://www.baltikagroup.com/public/files/Baltika_Annual_report%202013.pdf)

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