AS BALTIKA

Consolidated interim report for the fourth quarter and 12 months of 2017

Commercial name	AS Baltika
Commercial registry number	10144415
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E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2017 – 31 December 2017
Reporting period	1 January 2017 – 31 December 2017

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Baltika Group Consolidated interim report for the IV quarter and 12 months of 2017 (in thousands euros, unaudited)

BRIEF DESCRIPTION OF BALTIKA GROUP

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

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

As at 31 December 2017 the Group employed 1,018 people (31 December 2016: 1,049).

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

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding as at 31 Dec 2017	Holding as at 31 Dec 2016
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[2]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[2]	Lithuania	Retail	100%	100%
OY Baltinia AB	Finland	Retail	100%	100%
Baltika Sweden AB	Sweden	Dormant	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%

[1]Interest through a subsidiary.
[2]Interest through Baltman OÜ

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, FOURTH QUARTER AND 12 MONTHS OF 2017

Baltika Group ended the fourth quarter with a net profit of 920 thousand euros, which exceeds the result of same period last year by 300 thousand euros. The result of fourth quarter in last year was a net profit of 620 thousand euros.

In the fourth quarter Group's revenue increased 2% compared to same period last year and was 12,969 thousand euros. Retail revenue in the fourth quarter was 11,626 thousand euros, increasing 2% and strong sales growth was continually shown by e-store. Wholesale and franchise sales decreased 7% compared to the fourth quarter last year.

Baltic region retail business recovered after the three quarter long period of decrease and resulted in 2% sales growth in the fourth quarter compared to the fourth quarter of last year. In November and December the offer of autumn-winter season collection brought visitors back to shopping centres, sales growth was supported by increase both in sales transactions and in average spend. Sales were recovering faster in Estonia and Latvia, showing increase 4% and 2% respectively in the fourth quarter. In year total retail sales amounted to 39,476 thousand euros, decreasing 1% compared to last year.

Wholesale and franchise revenue decreased 7% in the fourth quarter and was 857 thousand euros. Wholesale and franchise revenue growth was supported by recently added market Serbia and Peek & Cloppenburg department stores chain in Germany and Austria. The fourth quarter sales revenue decreased mainly due to complicated economic situation of Eastern-European franchise partners and smaller demand for new orders. While franchise sales decreased in the fourth quarter, then the wholesale increased and one of the growth reason was successful sale of PyeongChang Olympic collection to the partners. The biggest brand in wholesale and franchise was Monton with 60% share of sales. At the end of the fourth quarter there were 33 franchise stores representing Baltika's brands, forming 26% of the total stores portfolio. In year total the wholesale and franchise revenue increased 5% and was 6,300 thousand euros.

Baltika Group's e-store Andmorefashion.com revenue increased 38% in the fourth quarter and was 427 thousand euros. The most-selling brand in e-store was Monton, comprising of 37% from revenue. By country, most of the sales were in Estonia with share of 53%, followed by Latvia 17% and Lithuania 16%. Compared to same period last year, the largest growth was in Latvia (+54%). Total of 7,300 orders from 31 counties were received in the fourth quarter. In November, Click&Collect service that so far had been available in Estonia and Latvia, was also launched in Lithuania. E-store processes of assembling orders and merchandising were simplified through new developments. In year total, the e-store Andmorefashion.com revenue increased 38% and was 1,468 thousand euros.

Implementing the more conservative cost policy and efficient inventory management process together with more favourable input conditions in the second half-year, recovered the gross profit growth at the end of year and led to the highest gross profit margin earned in a quarter in last five years. The company's gross profit margin in the fourth quarter was 54.9% increasing by 3.1 percentage points in the year. The gross profit for the quarter was 7,122 thousand euros, increasing by 547 thousand euros compared to last year's comparable result. The year total gross profit amounted to 23,670 thousand euros (2016: 23,497 thousand euros).

Group's distribution and general expense increased 2% in the fourth quarter and 1% in a year. The distribution and general expense to revenue ratio in the fourth quarter was 46.2% remaining at the same level in comparable period. In year total, the ratio was 48.5% improving by 0.1 percentage points.

In year total, Baltika's revenue increased 1%. The e-store and wholesale and franchise revenue showed growth; with that one of the company's objectives for 2017 – revenue growth in all of the sales channels – was partly met. In spite of the weak result of nine months, which was caused by poor sales and decreased gross profit related to deeper discounts in retail sector, with the contribution of strong fourth quarter company managed to end the year in profit. Company ended the 2017 in a profit of 58 thousand euros, last year profit was 177 thousand euros.

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

- In September the biggest brand in Baltika's portfolio Monton celebrated its 15th birthday. For the occasion, Monton designers created a special collection named "Freedom" as a tribute to all free spirits, to freedom of creation and expression and to free Estonia. Swallow campaign, created for the communication of Monton's anniversary and special collection, won the prize of Digital Deed 2017 in branded content category.
- To Celebrate Estonia's 100th and Canada's 150th birthday, a premiere under the concept called Northern Spirit EstoSyle was held in Toronto in Canada in September. During this event, eight internationally most recognized Estonian fashion and design brands were showcased, including three Baltika's brands: Monton, Baltman and Ivo Nikkolo.
- On 11 November 2017, Supervisory Board decided to recall the head of purchasing and supply chain Ingrid Uibukant from the Management Board starting from 18th of December 2017. Management Board of Baltika AS will continue with two members: Chief Executive Officer Meelis Milder and Chief Financial Officer Maigi Pärnik-Pernik.
- In November Monton and the Estonian Olympic Committee revealed the new Olympic collection dedicated to Estonia's 100th birthday. Monton's collection for the PyeongChang Winter Olympics is called 1918 after the year of birth of Estonian Republic. Many of the world media publications have named the outfit of Estonian Olympic Delegation as one of the best in PyeongChang.
- In December, Baltika started the new pilot project to support the e-store growth in Finland, within this project new pop-up store was opened in Iso Omena Shoppingcenter in Espoo. Initial duration for the Finnish project is planned for six months with the purpose to support the integration of e-store Andmorefashion.com and physical store to offer unified and better shopping experience to the customer.
- In the fourth quarter, Baltika opened Monton Andmore store in Estonia in Nautica shopping center and pop-up store with new concept was opened in Finland in Iso Omena shopping center. Franchise partner in Ukraine opened Monton store in Kiev in Gorodok shopping center
- In relation to unite marketing and communication areas in Baltika Group and bring their management under one unit, starting from December Mari-Liis Küppar works in Baltika as new Marketing and Communication Manager. She has previous working experience in Swedbank AS, Saku Õlletehase AS and AS Värska Vesi. The role of the marketing and communication department is to represent stronger customer view in the organisation to bring Group's business strategy into life. Thereby, there is intention to make the brands' marketing communication stronger in different channels.
- Starting from January 2018, Raivo Videvik is working in Baltika as new Export Director, for the purpose to put effort into the growth of export and to accelerate the increase of sales in franchise and wholesale. Previously, Raivo has been responsible for managing sales department and export area in Timbeco Woodhouse OÜ, being active in developing business and retail processes in Elektrum Eesti OÜ and also in Eesti Gaas AS.

REVENUE

In the fourth quarter Baltika's revenue was 12,969 thousand euros, increasing 2% compared to same period last year. In activity comparison, the biggest sales growth 38% was achieved in e-com. Retail sales increased 2%. Wholesale and franchise revenue decreased in the fourth quarter. In year total, Group's revenue increased 1% and amounted to 47,459 thousand euros. Largest contribution to the total sales growth (466 thousand euros) was made by e-com, which revenue increased by 405 thousand euros in a year.

Baltika Group Consolidated interim report for the IV quarter and 12 months of 2017 (in thousands euros, unaudited)

Revenue by activity

EUR thousand	4 Q 2017	4 Q 2016	+/-	12M 2017	12M 2016	+/-
Retail	11,626	11,413	2%	39,476	39,678	-1%
Wholesale & Franchise	857	923	-7%	6,300	6,029	5%
E-com sales	427	310	38%	1,468	1,063	38%
Other	59	58	2%	215	223	-4%
Total	**12,969**	**12,704**	**2%**	**47,459**	**46,993**	**1%**

Stores and sales area

As at 31 December 2017, Group had 128 stores, among which 33 franchise stores. In last quarter, number of stores increased by 3. In November, Baltika opened Monton Andmore store in Estonia in Nautica shopping center and in December, pop-up store with new concept was opened in Finland in Iso Omena shopping center. In November, Franchise partner in Ukraine opened Monton store in Kiev in Gorodok shopping center.

Stores by market

	31 Dec 2017	31 Dec 2016	Average area change*
Estonia	44	44	4%
Lithuania	29	29	-1%
Latvia	21	22	4%
Finland	1	0	-
Ukraine[1]	16	16	-1%
Russia[1]	11	12	-20%
Belarus[1]	2	2	-10%
Spain[1]	3	3	-28%
Serbia[1]	1	0	-
Total stores	**128**	**128**	
Total sales area, sqm	**24,042**	**23,211**	**0%**

*Yearly average area change also takes into account the time store is closed for renovation
[1]Franchise shops are with a total sales area of 6,301 m^2.

Retail

In the fourth quarter retail revenue totalled 11,626 thousand euros, increasing 2% compared to same period last year. When October was still modest concerning sales, then winter season brought sales growths both in November and in December to all retail markets. At the same time in Latvia and in Lithuania, also the sales efficiency increased in both months.

Baltika's biggest retail market, Estonian market's, revenue increased in a year by 2% and was 19,106 thousand euros. At the same time, the revenue in other Baltic retail markets decreased, resulting in a total retail revenue of 39,463 thousand euros i.e. 1% less than in same period last year.

Retail sales by market

EUR thousand	4 Q 2017	4 Q 2016	+/-	Share	12M 2017	12M 2016	+/-	Share
Estonia	5,446	5,249	4%	47%	19,106	18,643	2%	48%
Lithuania	3,138	3,182	-1%	27%	10,286	10,875	-5%	26%
Latvia	3,029	2,982	2%	26%	10,071	10,160	-1%	26%
Finland	13	0	-	0%	13	0	-	0%
Total	**11,626**	**11,413**	**2%**	**100%**	**39,476**	**39,678**	**-1%**	**100%**

Although the fourth quarter sales increased in Estonia and in Latvia, the sales efficiency was lower than in last year due to increase in sales area.

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

	4 Q 2017	4 Q 2016	+/-	12M 2017	12M 2016	+/-
Estonia	222	227	-2%	201	205	-2%
Lithuania	190	193	-1%	156	163	-4%
Latvia	259	258	0%	214	223	-4%
Finland	105	0	-	105	0	-
Total	**220**	**223**	**-1%**	**190**	**195**	**-3%**

Brands

Bastion brand continued the year also in the fourth quarter to show good results, increasing sales by 8%. At the same time Bastion sales area has not changed, thus the sales efficiency of Bastion increased. In year total, Bastion sales increased by 173 thousand euros i.e 10% and amounted to 1,908 thousand euros.

In the fourth quarter, Ivo Nikkolo continued to show good results as well, in spite of decreased sales area sales increased by 4%. In twelve months total, Ivo Nikkolo sales increased 1% and amounted to 3,988 thousand euros.

Monton sales grew by 166 thousand euros in the fourth quarter i.e 3% compared to last year. When the beginning of quarter was for Monton still in decline, compared to last year, then the next months' good results in sales efficiency and sales growth helped to finalize the quarter with total sales of 5,316 thousand euros. Baltika's largest brand Monton ended the year with growth as well, 1% increase in sales amounted to sales revenue of 17,128 thousand euros.

Retail revenue by brand

EUR thousand	4 Q 2017	4 Q 2016	+/-	Share	12M 2017	12M 2016	+/-	Share
Monton	5,316	5,150	3%	46%	17,128	16,983	1%	43%
Mosaic	3,370	3,389	-1%	29%	11,924	12,210	-2%	30%
Baltman	1,245	1,266	-2%	11%	4,514	4,687	-4%	11%
Ivo Nikkolo	1,138	1,093	4%	10%	3,988	3,949	1%	10%
Bastion	555	513	8%	5%	1,908	1,735	10%	5%
Other	2	2	-23%	0%	14	114	-88%	0%
Total	**11,626**	**11,413**	**2%**	**100%**	**39,476**	**39,678**	**-1%**	**100%**

Sales in other channels

Wholesale and franchise revenue decreased 7% in the fourth quarter, compared to same period last year and was 857 thousand euros. Wholesale and franchise revenue growth was supported by recently added market Serbia and Peek & Cloppenburg department stores chain in Germany and Austria. In total, sales revenue decreased mainly due to drop in franchise related to the smaller sales to Ukrainian franchise partner. Wholesale increased in the fourth quarter, one of the growth reason was successful sale of PyeongChang Olympic collection to partners. The biggest brand in wholesale and franchise was Monton with 60% share of sales. At the end of the fourth quarter there were 33 franchise stores representing Baltika's brands, forming 26% of the total stores portfolio. In year total the wholesale and franchise revenue increased 5% and was 6,300 thousand euros.

Baltika Group's e-store Andmorefashion.com revenue increased 38% in the fourth quarter and was 427 thousand euros. The most-selling brand in e-store was Monton, comprising of 37% from e-store revenue. Mosaic formed 29%, Ivo Nikkolo 17%, Bastion 12% and Baltman 5% of the sales. By country, 53% of e-store sales were made in Estonia; Latvia formed 17%, Lithuania 16%, Russia 5%, Finland 3% and rest of the 26 counties 6% of sales. Compared to same period last year, the largest growth was in Latvia (+54%). In Estonia, Lithuania, Russia and Finland sales increased 39%, 34%, 16% and 12% respectively. 7,300 orders from 31 counties were received in the fourth quarter. In November, Click&Collect service, that so far had been available in Estonia and Latvia, was also launched in Lithuania. E-store processes of assembling orders and merchandising were simplified through new developments. In year total, the e-store Andmorefashion.com revenue increased 38% and was 1,468 thousand euros.

OPERATING EXPENSES AND NET PROFIT

The company's gross profit margin in the fourth quarter was 54.9% increasing by 3.1 percentage points compared to the same period last year. It is the highest gross margin in the last five years. Increase in gross margin is affected mainly by lower input prices. The gross profit for the quarter was 7,122 thousand euros, which is 547 thousand euros i.e. 8% more than last year's comparable result. Year total gross profit amounted to 23,670 thousand euros (2016: 23,497 thousand euros).

Distribution expense in the fourth quarter was 5,425 thousand euros, increasing by 183 thousand euros compared to the same period last year. Distribution expense in the head office was lower than in comparable period last year, at the same time due to increased sales area and cost pressure in retail markets distribution expense has increased 6% i.e. by 225 thousand euros. General and administrative expense decreased in the fourth quarter by 63 thousand euros and was 567 thousand euros. Year total distribution, general and administrative expense increased 1% and amounted to 23,017 thousand euros.

The distribution and general expense ratio to revenue in the fourth quarter remained with 46.2% at level of same period last year. Total year ratio improved by 0.1 percentage points and was 48.5% (2016: 48.6%).

Other operating net expense in the fourth quarter was 12 thousand euros and the operating profit was 1,118 thousand euros. In same period last year, the operating profit was 798 thousand euros.

The net financial expense in the fourth quarter was 159 thousand euros, which is 14 thousand euros less than in the same period last year.

The tax expense recorded in the fourth quarter was 39 thousand euros. Quarter resulted in a net profit in the amount of 920 thousand euros, improving by 300 thousand euros i.e. 48% compared to the same period last year and was the best fourth quarter result in the last five years. Net profit of the comparable period was 620 thousand euros. Year resulted in a net profit in the amount of 58 thousand euros, last years' net profit was 177 thousand euros.

FINANCIAL POSITION

As at 31 December 2017, Baltika Group inventories totalled 10,499 thousand euros, decreasing by 597 thousand euros compared to last year-end. Goods and goods purchased for resale inventories have decreased the most, by 581 thousand euros. Fabrics, accessories and work-in-progress inventories have increased by 27 thousand euros. Prepayments to suppliers have decreased by 43 thousand euros.

As at 31 December 2017 the total borrowings amounted to 6,672 thousand euros, which together with the usage of overdraft facility signifies a decrease of 359 thousand euros compared to the last year-end (31 December 2016: 7,031 thousand euros). The decrease in borrowings is attributable to the decrease in the usage of overdraft.

In the fourth quarter, purchases of fixed assets were made in the amount of 164 thousand euros and deprecation of 292 thousand euros was recorded. Property, plant and equipment and intangible assets at residual value decreased by 790 thousand euros compared to last year-end and were 3,908 thousand euros.

The fourth quarter operating activities cash-flows were 3,434 thousand euros (IV quarter 2016: 2,357 thousand euros). In addition to good results in the fourth quarter, improved cash inflow from operating activities was caused also by lower use of financing working capital, to which the biggest effect came from changes in balance of receivables. In the fourth quarter, investments were made in the amount of 129 thousand euros. Most of the cash generated from operating activities was, in addition to scheduled loan and leasing repayments, directed to repayment of overdraft, in total amount of 3,029 thousand euros. Group's fourth quarter total cash flow was 276 thousand euros (IV quarter 2016: 193 thousand euros).

As at 31 December 2017 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 5,968 thousand euros, which is 644 thousand euros less than at the end of last year. The net debt to equity ratio was 115% as at 31 December 2017 (31 December 2016: 133%). Net debt to equity ratio has improved mainly due to the decrease in usage of overdraft. The company's current ratio has improved from 1.1 in 2016 to 1.8 in 2017.

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PEOPLE

As at 31 December 2017 Baltika Group employed 1,018 people, which is 31 people less than at 31 December 2016 (1,049): 480 (31.12.2016: 487) in the retail system, 363 (31.12.2016: 380) in manufacturing and 175 (31.12.2016: 182) at the head office and logistics centre. The 2017 average number of staff in the Group was 1,044 (2016: 1,073).

Baltika Group employees' remuneration expense in 2017 amounted to 10,588 thousand euros (2016: 10,502 thousand euros). The remuneration expense of the members of the Supervisory Board and Management Board totalled 275 thousand euros (2016: 267 thousand euros).

After the resignation of Head of Purchasing and Supply Chain Ingrid Kormik in December 2017, Management Member Maigi Pärnik-Pernik is responsible of entire division of Purchasing and Supply Chain.

KEY FIGURES OF THE GROUP (IV QUARTER AND 12 MONTHS 2017)

	Q4 2017	Q4 2016	Q4 2015[1]	Q4 2015	Q4 2014	Q4 2013
Revenue (EUR thousand)	12,969	12,704	13,505	14,643	15,807	16,694
Retail sales (EUR thousand)	11,626	11,413	12,413	13,551	14,056	15,754
Share of retail sales in revenue	89.6%	89.8%	91.9%	92.5%	88.9%	94.4%
Gross margin	54.9%	51.8%	48.0%	48.8%	50.2%	54.3%
EBITDA (EUR thousand)	1,418	1,123	864	-3,049	1,001	1,444
Net profit (EUR thousand)	920	620	333	-4,641	420	865
EBITDA margin	14.5%	8.8%	6.4%	-20.8%	6.3%	8.6%
Operating margin	8.6%	6.3%	3.9%	-29.4%	4.3%	6.0%
EBT margin	7.4%	4.9%	2.8%	-30.4%	3.3%	6.1%
Net margin	7.1%	4.9%	2.5%	-31.7%	2.7%	5.2%

Sales activity key figures	12M and 31 Dec 2017	12M and 31 Dec 2016	12M and 31 Dec 2015[1]	12M and 31 Dec 2015	12M and 31 Dec 2014	12M and 31 Dec 2013
Revenue (EUR thousand)	47,459	46,993	48,806	53,298	57,127	58,353
Retail sales (EUR thousand)	39,476	39,678	42,730	47,222	51,424	54,592
Share of retail sales in revenue	83.2%	84.4%	87.6%	88.6%	90.0%	93.6%
Share of exports in revenue	56.1%	56.4%	56.6%	60.2%	65.2%	66.5%
Number of stores in retail	95	95	95	105	105	124
Number of stores	128	128	123	133	128	126
Sales area at the end of period (sqm)	17,741	17,161	17,046	19,883	20,232	23,852
Number of employees (end of period)	1,018	1,049	1,095	1,174	1,228	1,345
Gross margin	49.9%	50.0%	47.3%	47.7%	50.8%	53.5%
EBITDA (EUR thousand)	1,875	2,004	944	-3,425	567	2,252
Net profit (EUR thousand)	58	177	-844	-6,359	-1,263	102
EBITDA margin	4.0%	4.3%	1.9%	-6.4%	1.0%	3.9%
Operating margin	1.3%	1.5%	-0.6%	-10.6%	-1.2%	1.1%
EBT margin	0.2%	0.4%	-1.6%	-11.6%	-2.0%	0.5%
Net margin	0.1%	0.4%	-1.7%	-11.9%	-2.2%	0.2%
Inventory turnover	2.15	2.17	2.16	2.21	2.09	2.09

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Other ratios[2]						
Current ratio	1.8	1.1	1.3	1.3	1.6	1.5
Net gearing ratio	115.1%	133.2%	123.2%	123.2%	74.9%	38.7%
Return on equity	1.3%	3.8%	-92.8%	-92.8%	-13.4%	1.0%
Return on assets	0.3%	0.9%	-28.1%	-28.1%	-5.4%	0.4%

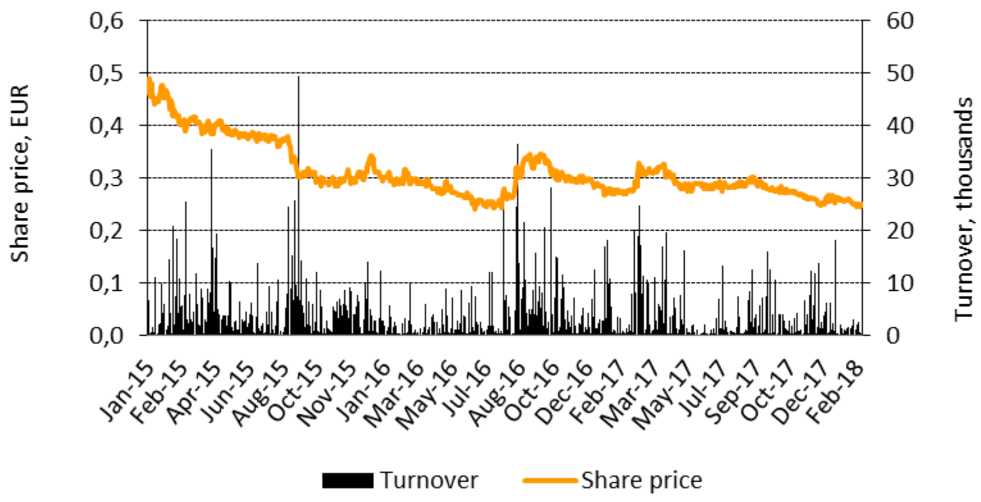
[1]In connection with Baltika's exit from the Russian retail business at the beginning of the year 2016, the sales activity key figures of 2015 presents only results of continued operations.
[2]Other ratios include impact of continued and discontinued operations.

Definitions of key ratios

EBITDA = Operating profit-amortisation depreciation and loss from disposal of fixed assets
EBITDA margin = EBITDA/Revenue
Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Inventory turnover = Cost of goods sold/Average inventories*
Net gearing ratio = (Interest-bearing liabilities-cash and cash equivalents)/Equity
Return on equity (ROE) = Net profit /Average equity*
Return on assets (ROA) = Net profit /Average total assets*

*Based on 12-month average

SHARE PRICE AND TURNOVER



MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

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

Meelis Milder
Chairman of the Management Board
27 February 2018

Maigi Pärnik-Pernik
Member of the Management Board
27 February 2018

INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the fourth quarter and 12 months of 2017 as presented on pages 12-32.

The Management Board confirms that:

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

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

3. the Group is going concern.

Meelis Milder
Chairman of the Management Board
27 February 2018

Maigi Pärnik-Pernik
Member of the Management Board
27 February 2018

Baltika Group Consolidated interim report for the IV quarter and 12 months of 2017 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Current assets			
Cash and cash equivalents	3	704	419
Trade and other receivables	4	2,055	1,956
Inventories	5	10,499	11,096
Total current assets		**13,258**	**13,471**
Non-current assets			
Deferred income tax asset		189	228
Other non-current assets	4	487	522
Property, plant and equipment	6	2,395	3,022
Intangible assets	7	1,513	1,676
Total non-current assets		**4,584**	**5,448**
TOTAL ASSETS		**17,842**	**18,919**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	1,309	5,835
Trade and other payables	9,10	5,984	6,923
Total current liabilities		**7,293**	**12,758**
Non-current liabilities			
Borrowings	8	5,363	1,196
Total non-current liabilities		**5,363**	**1,196**
TOTAL LIABILITIES		**12,656**	**13,954**
EQUITY			
Share capital at par value	11	8,159	8,159
Share premium		496	496
Reserves	11	1,345	1,182
Retained earnings		-4,872	-5,049
Net profit for the period		58	177
TOTAL EQUITY		**5,186**	**4,965**
TOTAL LIABILITIES AND EQUITY		**17,842**	**18,919**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	4 Q 2017	4 Q 2016	2017	2016
Revenue	12,13	12,969	12,704	47,459	46,993
Client bonus provision	10	16	23	16	23
Revenue after client bonus provision		12,985	12,727	47,475	47,016
Cost of goods sold	14	-5,863	-6,152	-23,805	-23,519
Gross profit		**7,122**	**6,575**	**23,670**	**23,497**
Distribution costs	15	-5,425	-5,242	-20,630	-20,336
Administrative and general expenses	16	-567	-630	-2,387	-2,504
Other operating income (-expense)	17	-12	95	-35	44
Operating profit		**1,118**	**798**	**618**	**701**
Finance costs	18	-159	-173	-521	-519
Profit before income tax		**959**	**625**	**97**	**182**
Income tax expense		-39	-5	-39	-5
Net profit for the period		**920**	**620**	**58**	**177**
Basic earnings per share from net profit for the period, EUR	19	0.02	0.02	0.00	0.00
Diluted earnings per share from net profit for the period, EUR	19	0.02	0.02	0.00	0.00

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CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	4 Q 2017	4 Q 2016	2017	2016
Net profit for the period	**920**	**620**	**58**	**177**
Other comprehensive income				
Total other comprehensive income	**0**	**0**	**0**	**0**
Total comprehensive income	**920**	**620**	**58**	**177**

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CONSOLIDATED CASH FLOW STATEMENT

	Note	4 Q 2017	4 Q 2016	2017	2016
Cash flows from operating activities					
Operating profit		1,118	798	618	701
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	289	322	1,230	1,288
Gain (loss) from sale, impairment of PPE, non-current assets, net		11	2	27	15
Other non-monetary adjustments		128	-105	166	2
Changes in working capital:					
Change in trade and other receivables	4	1,367	715	-64	-293
Change in inventories	5	217	175	597	-672
Change in trade and other payables	9	374	566	-633	-283
Interest paid		-70	-117	-267	-305
Interest received		0	0	0	7
Income tax paid		0	1	0	0
Net cash generated from operating activities		**3,434**	**2,357**	**1,674**	**460**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-129	-201	-420	-1,207
Proceeds from disposal of PPE		0	2	7	50
Net cash used in investing activities		**-129**	**-199**	**-413**	**-1,157**
Cash flows from financing activities					
Received borrowings	8	0	0	500	1,500
Repayments of borrowings	8	-288	-256	-1,120	-807
Change in bank overdraft	8	-2,690	-1,661	-983	194
Repayments of finance lease		-51	-48	-201	-145
Repayments of convertible bonds		0	0	-35	-24
Proceeds from convertible bonds issuance		0	0	863	0
Net cash generated (used in) financing activities		**-3,029**	**-1,965**	**-976**	**718**
Total cash flows		**276**	**193**	**285**	**21**
Cash and cash equivalents at the beginning of the period	3	**428**	**226**	**419**	**398**
Cash and cash equivalents at the end of the period	3	**704**	**419**	**704**	**419**
Change in cash and cash equivalents		**276**	**193**	**285**	**21**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance as at 31 Dec 2015	**8,159**	**496**	**1,182**	**-5,049**	**4,788**
Net profit for the period	0	0	0	177	177
Total comprehensive income for the period	**0**	**0**	**0**	**177**	**177**
Balance as at 31 Dec 2016	**8,159**	**496**	**1,182**	**-4,872**	**4,965**
Net profit for the period	0	0	0	58	58
Total comprehensive income for the period	**0**	**0**	**0**	**58**	**58**
Value of conversion feature on convertible bonds	0	0	163	0	163
Balance as at 31 Dec 2017	**8,159**	**496**	**1,345**	**-4,814**	**5,186**

NOTES TO CONSOLIDATED INTERIM REPORT

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

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

The Group's condensed consolidated interim report for the fourth quarter ended 31 December 2017 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2016, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016. New and revised standards and interpretations effective from 1 January 2017 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

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

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

NOTE 2 Financial risks

In its daily activities, the Group is exposed to different types of risks, 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. Management of the Group's Parent company considers all the risks as significant risks for the Group. The Group uses the ability to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions to hedge certain risk exposures.

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 Group plays a major role in managing risks and approving risk procedures. The Supervisory Board of the Group supervises the Management Board's risk management activities.

Market risk

Foreign exchange risk

In 2017 and 2016 all sales were made in euros. The Group's foreign exchange risk is related to purchases done and amounts owed in foreign currencies. The majority of raw materials used in production are acquired from the European Union and goods purchased for resale are acquired outside of the European Union. The main currencies used for purchases are EUR (euro) and USD (US dollar).

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

Average currencies	2017	2016
USD (US dollar)	2.06%	-0.23%

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

Balance-sheet date rates (31 Dec 2017; 31 Dec 2016)	
USD (US dollar)	13.77%

Foreign exchange risk arises only from trade payables (Note 9), as cash and cash equivalents (Note 3), trade receivables (Note 4), borrowings (Note 8) are in euro and thereof not open to foreign exchange risk.

In 2016 the Group hedged foreign currency risk using forward contracts which are recorded in the statement of financial position at fair value through profit and loss. No instruments were used to hedge foreign currency risk in 2017. The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency.

Interest rate risk

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

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

Non-current borrowings in the amount of 953 thousand euros at 31 December 2017 and 1,196 thousand euros 31 December 2016 were subject to a floating 6 month interest rate based on Euribor. The Group analyses its interest rate exposure on a regular basis. Various scenarios for reducing risks are considered. These scenarios include refinancing, renewal of existing positions and alternative financing.

During the current or the previous reporting period the Group has not used any hedging instruments to manage the risks arising from interest rate fluctuations.

Price risk

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

Credit risk

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

Cash and cash equivalents

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

Trade receivables

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

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

As at 31 December 2017 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted to 1,874 thousand euros (31 December 2016: 1,713 thousand euros) on a net basis after allowances.

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 assesses the sufficiency of cash and cash equivalents to settle liabilities and finance the Group's strategic goals on a regular basis by monitoring rolling cash forecasts.

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To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, bond issuances, monitoring the terms of receivables and purchase contracts. The unused limit of the Group´s overdraft facilities as at 31 December 2017 was 3,363 thousand euros (31 December 2016: 2,380 thousand euros).

Financial liabilities by maturity at 31 December 2017

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (Note 8)[2]	2,087	1,272	905	2,177
Finance lease liabilities (Note 8)	175	100	80	180
Convertible bonds (Note 8)	4,410	0	4,994	4,994
Trade payables (Note 9)	2,994	2,994	0	2,994
Other financial liabilities	22	22	0	22
Total	**9,688**	**4,388**	**5,979**	**10,367**

Financial liabilities by maturity at 31 December 2016

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (Note 8)[2]	3,685	2,807	1,110	3,917
Finance lease liabilities (Note 8)	346	202	155	357
Convertible bonds (Note 8)	3,000	3,624	0	3,624
Trade payables (Note 9)	3,259	3,259	0	3,259
Other financial liabilities	30	30	0	30
Total	**10,320**	**9,922**	**1,265**	**11,187**

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

Operational risk

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

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

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

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

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

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The inherent risk factor in selling clothes is the weather. When creating collections and planning the volume as well as timing of sales, regular weather conditions are assumed in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may differ significantly from the budget.

Capital risk management

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

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

The Group aims to maintain the net gearing ratio under 50%. At the end of the reporting period the ratio was 115%. Compared to the end of 2016 when the ratio was 133%, it has improved mostly due to decreased usage of overdraft facilities in the accounting period. The Group also monitors other ratios e.g. net debt to EBITDA and net debt to share capital. Based on the above, the Group deems the capital structure to be in an acceptable range.

Net gearing ratio

	31 Dec 2017	31 Dec 2016
Interest carrying borrowings (Note 8)	6,672	7,031
Cash and bank (Note 3)	-704	-419
Net debt	5,968	6,612
Total equity	5,186	4,965
Net gearing ratio	**115%**	**133%**

Fair value

The Group estimates that the fair values of the assets and liabilities measured in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 December 2017 and 31 December 2016.

Trade receivables and payables are measured at amortized cost. Management estimates that their carrying value approximates fair value as they are mostly short term.

As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. The Group's risk margins have not changed considerably and reflect market conditions. Group's long-term borrowings that have a fixed interest rate, are recognized at the discounted present value by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTE 3 Cash and cash equivalents

	31 Dec 2017	31 Dec 2016
Cash at hand	120	110
Cash at bank and overnight deposits	584	309
Total	**704**	**419**

All cash and cash equivalents are in euros.

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NOTE 4 Trade and other receivables

Short-term trade and other receivables	31 Dec 2017	31 Dec 2016
Trade receivables, net	1,628	1,467
Other prepaid expenses	181	195
Tax prepayments and tax reclaims, thereof	198	280
Value added tax	198	280
Other current receivables	48	14
Total	**2,055**	**1,956**

Long-term assets		
Non-current lease prepayments	276	276
Other long-term receivables	211	246
Total	**487**	**522**

All trade and other receivables are in euros.

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

31 Dec 2017	Baltic region	Eastern European region	Other regions	Total
Not due	184	935	134	1,253
Up to 1 month past due	16	33	22	71
1-3 months past due	0	221	7	228
3-6 months past due	0	75	0	75
Over 6 months past due	0	0	1	1
Total	**200**	**1,264**	**164**	**1,628**

31 Dec 2016	Baltic region	Eastern European region	Other regions	Total
Not due	459	784	22	1,265
Up to 1 month past due	16	1	75	92
1-3 months past due	3	0	38	41
3-6 months past due	15	0	37	52
Over 6 months past due	17	0	0	17
Total	**510**	**785**	**172**	**1,467**

NOTE 5 Inventories

	31 Dec 2017	31 Dec 2016
Fabrics and accessories	1,914	1,906
Work-in-progress	97	78
Finished goods and goods purchased for resale	8,174	8,885
Allowance for impairment of finished goods and goods purchased for resale	-210	-340
Prepayments to suppliers	524	567
Total	**10,499**	**11,096**

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NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments	Total
31 December 2015					
Acquisition cost	**2,452**	**4,736**	**4,491**	**1**	**11,680**
Accumulated depreciation	-1,545	-4,269	-2,956	0	-8,770
Net book amount	**907**	**467**	**1,535**	**1**	**2,910**
Additions	544	91	589	0	1,224
Disposals	-20	0	-87	0	-107
Reclassifications	0	1	-1	-1	-1
Depreciation	-339	-151	-514	0	-1,004
31 December 2016					
Acquisition cost	**2,838**	**4,718**	**4,813**	**0**	**12,369**
Accumulated depreciation	-1,746	-4,310	-3,291	0	-9,347
Net book amount	**1,092**	**408**	**1,522**	**0**	**3,022**
Additions	176	83	238	0	497
Disposals	-17	-1	-50	0	-68
Depreciation	-390	-119	-547	0	-1,056
31 December 2017					
Acquisition cost	**2,925**	**4,743**	**4,878**	**0**	**12,546**
Accumulated depreciation	-2,064	-4,372	-3,715	0	-10,151
Net book amount	**861**	**371**	**1,163**	**0**	**2,395**

NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Goodwill	Total
31 December 2015				
Acquisition cost	**2,261**	**1,243**	**509**	**4,013**
Accumulated depreciation	-1,732	-337	0	-2,069
Net book amount	**529**	**906**	**509**	**1,944**
Additions	23	0	0	23
Disposals	-1	0	0	-1
Amortisation	-246	-44	0	-290
31 December 2016				
Acquisition cost	**2,092**	**1,243**	**509**	**3,844**
Accumulated depreciation	-1,787	-381	0	-2,168
Net book amount	**305**	**862**	**509**	**1,676**
Additions	16	0	0	16
Amortisation	-135	-44	0	-179
31 December 2017				
Acquisition cost	**2,107**	**1,243**	**509**	**3,859**
Accumulated depreciation	-1,921	-425	0	-2,346
Net book amount	**186**	**818**	**509**	**1,513**

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NOTE 8 Borrowings

	31 Dec 2017	31 Dec 2016
Current borrowings		
Current portion of long-term bank loan	575	1,019
Bank overdrafts	637	1,620
Current finance lease liabilities	97	196
Convertible bonds (Note 11)	0	3,000
Total	**1,309**	**5,835**
Non-current borrowings		
Non-current bank loan	875	1,046
Non-current finance lease liabilities	78	150
Convertible bonds (Note 11)	4,410	0
Total	**5,363**	**1,196**
Total borrowings	**6,672**	**7,031**

During the reporting period, the Group made loan repayments in the amount of 1,120 thousand euros (2016: 807 thousand euros). Group´s overdraft facilities with the banks were used in the amount of 637 thousand euros as at 31 December 2017 (31 December 2016: 1,620 thousand euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 499 thousand euros, including 255 thousand euros interest expense from the convertible bonds of related party (2016: 472 thousand euros, including 214 thousand euros interest expense from the loan of related party).

The Group leases various production equipment, cars, furniture and equipment for shops under finance leases.

Changes in 2017

In April, the Group withdraw the last part of the investment loan of 500 thousand euros, which will be repaid based on the repayment schedule together with the existing investment loan.

In May an annex under the existing facility agreement was signed, which extended the overdraft´s repayment date until July 2018 (in the amount of 3,000 thousand euros).

In June the repayment date of the second overdraft agreement (in the amount of 1,000 thousand euros) was extended until June 2018.

Since by the end of July the Group did not receive any applications from J-bond holders to mark the shares, in August all proceeds were partly repaid and partly offset with the amounts to be paid for K-bonds. In August the Group issued K-bonds, which increased the long-term borrowings by 4,410 thousand euros. See more in Note 11.

Changes in 2016

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

In July an annex under the existing facility agreement was signed, which extended the other overdraft´s repayment date until July 2017 (in the amount of 3,000 thousand euros). With the same annex the existing loan repayment period was extended by 20 months and an additional investment loan in the amount of 2,000 thousand euros was taken, which will be repaid during the next 4 years. In the third quarter 1,500 thousand euros from the new loan was taken into use.

Interest carrying loans and bonds of the Group as at 31 December 2017

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR or EONIA +3.8%	2,262
K-Bonds*	6.0%	4,445
Total		**6,707**

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

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR or EONIA +4.6%	4,031
J-Bonds	6.5%	3,000
Total		**7,031**

*K-Bonds are shown in the nominal value of notes issued.

NOTE 9 Trade and other payables

	31 Dec 2017	31 Dec 2016
Current liabilities		
Trade payables	2,994	3,259
Tax liabilities, thereof	1,465	1,603
Personal income tax	189	220
Social security taxes and unemployment insurance premium	527	536
Value added tax	716	770
Other taxes	33	77
Payables to employees[1]	1,010	991
Other accrued expenses	22	527
Customer prepayments	36	166
Other current payables	126	30
Total	**5,653**	**6,576**

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

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

Trade payables and other accrues expenses in denominated currency

	31 Dec 2017	31 Dec 2016
EUR (euro)	1,954	2,630
USD (US dollar)	1,076	1,156
Total	**3,030**	**3,786**

NOTE 10 Provisions

	31 Dec 2017	31 Dec 2016
Client bonus provision	331	347
Total	**331**	**347**

Short description of the provision

Baltika customer loyalty program “AndMore” motivates clients by allowing them to earn future discounts on purchases made today (bonus euros). Accumulated bonuses are valid for six months from the customer´s last purchase. Program conditions are described in detail on company´s website.

Used assumptions

The provision is calculated using assumptions made by Management as described in the Group´s consolidated annual financial statements for the year ended 31 December 2016.

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NOTE 11 Equity

Share capital and reserves

	31 Dec 2017	31 Dec 2016
Share capital	8,159	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182
Other reserves	163	0

As at 31 December 2017 and 31 December 2016, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for. As at 31 December 2017 and 31 December 2016 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange. Other reserves cover the equity component of the issued K-bonds. The liability component is reflected in financial liabilities.

Convertible bonds and share option program

	Issue date	Share subscription period	Number of convertible bonds 31 Dec 2017	Number of convertible bonds 31 Dec 2016
K-Bond	16 August 2017	15 July 2019 – 18 August 2019	889	0
J-Bond	28 July 2014	15 July 2017 – 30 July 2017	0	600

- K-bonds

On 8 May 2017, the Annual General Meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 4.5 million euros. The decision was to issue 900 convertible bonds with the issuance price of 5,000 euros. Out of 900 bonds offered, 889 bonds in total amount of 4,445 thousand euros were subscribed. The convertible bonds carry an annual interest rate of 6% and the term is two years. Each bond gives its owner the right to subscribe for 15,625 Baltika's share at subscription price of 0.32 euros.

Bonds were partly issued to a related party (720 bonds in the amount of 3,600 thousand euros) (Note 20).

- J-bonds

On 28 April 2014, the Annual General Meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 3 million euros. The decision was to issue 600 convertible bonds with the issuance price of 5,000 euros. The three-year convertible bonds carry an annual interest rate of 6.5% and give its owner the right to subscribe for 10,000 Baltika´s shares at a price of 0.50 euros per share. No applications were received by 30 July 2017 to mark the shares; therefore, all proceeds were partly repaid and partly offset with the amounts to be paid for K-bonds.

Bonds were partly issued to a related party (510 bonds in the amount of 2,550 thousand euros) (Note 20) which were offset together with accrued interest with the amounts to be paid for K-bonds.

- Share option program

On 27 April 2015, the Annual General Meeting of shareholders decided to conditionally increase share capital by up to 1,000,000 registered shares with a nominal value of 0.20 euro subscription price of 0.20 euro related to the share option program. The share options granted to the Management Board members vest three years after signing the option agreement if the Baltika share price increase conditions are fulfilled.

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Shareholders as at 31 December 2017

	Number of shares	Holding
1. ING Luxembourg S.A.	15,870,914	38.90%
2. Clearstream Banking Luxembourg S.A. clients	7,295,220	17.88%
3. SKANDINAVISKA ENSKILDA BANKEN S.A.	3,407,305	8.35%
4. Svenska Handelsbanken clients	1,000,000	2.45%
5. Members of Management and Supervisory Boards and their immediate family members		
Meelis Milder	1,000,346	2.45%
Persons related to members of Management Board	220,083	0.54%
Entities connected to Supervisory Board not mentioned above	1,002,427	2.46%
6. Other shareholders	10,998,555	26.97%
Total	**40,794,850**	**100.00%**

Shareholders as at 31 December 2016

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	5,726,142	14.04%
3. BMIG OÜ*	4,750,033	11.64%
4. SKANDINAVISKA ENSKILDA BANKEN S.A.	3,407,305	8.35%
5. Svenska Handelsbanken clients	1,320,000	3.24%
6. Members of Management and Supervisory Boards and their immediate family members		
Meelis Milder	1,013,735	2.48%
Persons related to members of Management Board	334,183	0.82%
Entities connected to Supervisory Board not mentioned above	1,002,427	2.46%
7. Other shareholders	10,650,111	26.11%
Total	**40,794,850**	**100.00%**

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

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

NOTE 12 Segments

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

The Parent company's Management Board assesses the performance of the business by distribution channel: retail channel and other sales channels (including wholsesale, franchise and e-commerce). The retail segments are countries, which have been aggregated to reportable segments by regions that share similar economic characteristics and meet other aggregation criteria provided in IFRS 8.

Description of segments and principal activities:

- Retail segment - consists of retail operations in Estonia, Latvia, Lithuania and Finland. While the Management Board reviews separate reports for each region, the countries have been aggregated into one reportable segment as they share similar economic characteristics. Each region sells the same products to similar classes of customers and use the same production process and the method to distribute their products.
- All other segments – consists of sale of goods to wholesale and franchise clients, materials and sewing services and e-commerce sales. None of these segments meet the reportable segments quantitative thresholds set out by IFRS 8 and are therefore aggregated into the All other segments category.

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

The Management Board monitors the Group´s results also by shops and brands. The Group makes decisions on a shop-by-shop basis, using aggregated information for decision making. For segment reporting the Management Board has decided to disclose the information by distribution channel. Most of the Management Board's decisions related to investments and resource allocation are based on the segment information disclosed in this Note.

The Management Board primarily uses a measure of revenue from external customers, segment profit, depreciation and amortisation and inventories to assess the performance of the operating segments. Information for the segments is disclosed below:

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

	Retail segment	All other segments[1]	Total
4 Quarter 2017			
Revenue (from external customers)	11,626	1,343	12,969
Segment profit[2]	2,959	263	3,222
Incl. depreciation and amortisation	-231	0	-231
4 Quarter 2016			
Revenue (from external customers)	11,413	1,291	12,704
Segment profit[2]	2,975	81	3,056
Incl. depreciation and amortisation	-228	-18	-246
12M 2017 and as at 31 Dec 2017			
Revenue (from external customers)	39,476	7,983	47,459
Segment profit[2]	6,401	1,615	8,016
Incl. depreciation and amortisation	-931	-48	-979
Inventories of segments	3,902	0	3,902
12M 2016 and as at 31 Dec 2016			
Revenue (from external customers)	39,678	7,315	46,993
Segment profit[2]	7,126	1,108	8,234
Incl. depreciation and amortisation	-859	-75	-934
Inventories of segments	4,392	0	4,392

[1]All other segments include sale of goods to wholesale and franchise clients, materials and sewing services and the sales from e-commerce.
[2]The segment profit is the segment operating profit.

Reconciliation of segment profit to consolidated operating profit

	4 Q 2017	4 Q 2016	2017	2016
Total segment profit	3,222	3,056	8,016	8,234
Unallocated expenses:[1]				
Costs of goods sold and distribution costs	-1,525	-1,723	-4,976	-5,073
Administrative and general expenses	-567	-630	-2,387	-2,504
Other operating income (expenes), net	-12	95	-35	44
Operating profit	**1,118**	**798**	**618**	**701**

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

Reconciliation of segment inventories to consolidated inventories

	31 Dec 2017	31 Dec 2016
Total inventories of segments	3,902	4,392
Inventories in Parent company and production company	6,597	6,704
Inventories on statement of financial position	**10,499**	**11,096**

NOTE 13 Revenue

	4 Q 2017	4 Q 2016	2017	2016
Sale of goods in retail channel	11,626	11,413	39,476	39,678
Sale of goods in wholesale and franchise channel	857	922	6,300	6,029
Sale of goods in e-commerce channel	427	311	1,468	1,063
Other sales	59	58	215	223
Total	**12,969**	**12,704**	**47,459**	**46,993**

Sales by geographical (client location) areas

	4 Q 2017	4 Q 2016	2017	2016
Estonia	6,068	5,654	21,154	20,487
Latvia	3,148	3,082	10,605	10,658
Lithuania	3,207	3,248	10,541	11,086
Russia	204	299	1,785	1,812
Ukraine	89	289	1,009	1,179
Germany	67	81	690	403
Austria	58	40	401	101
Serbia	31	0	384	0
Spain	0	-92	301	403
Finland	46	68	244	602
Belarus	29	22	235	188
Other countries	22	13	110	74
Total	**12,969**	**12,704**	**47,459**	**46,993**

NOTE 14 Cost of goods sold

	4 Q 2017	4 Q 2016	2017	2016
Materials and supplies	4,447	4,618	19,158	19,012
Payroll costs in production	907	890	3,609	3,493
Operating lease expenses	174	171	687	677
Other production costs	105	112	399	405
Depreciation of assets used in production (Note 6,7)	20	21	82	92
Change in allowance for inventories	210	340	-130	-160
Total	**5,863**	**6,152**	**23,805**	**23,519**

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NOTE 15 Distribution costs

	4 Q 2017	4 Q 2016	2017	2016
Payroll costs	2,419	2,349	9,216	9,165
Operating lease expenses	1,673	1,615	6,548	6,348
Advertising expenses	395	341	1,363	1,319
Depreciation and amortisation (Note 6,7)	258	273	1,083	1,071
Fuel, heating and electricity costs	122	129	475	506
Municipal services and security expenses	95	90	344	344
Fees for card payments	68	70	235	241
Information technology expenses	51	53	183	180
Travel expenses	26	35	152	163
Consultation and management fees	45	37	136	121
Communication expenses	25	26	99	104
Other sales expenses[1]	248	224	796	774
Total	**5,425**	**5,242**	**20,630**	**20,336**

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

NOTE 16 Administrative and general expenses

	4 Q 2017	4 Q 2016	2017	2016
Payroll costs	275	310	1,188	1,208
Operating lease expenses	98	113	419	440
Information technology expenses	48	49	194	216
Bank fees	31	24	136	153
Depreciation and amortisation (Note 6,7)	11	28	65	125
Fuel, heating and electricity expenses	16	18	64	68
Management, juridical-, auditor´s and other consulting fees	30	24	82	58
Other administrative expenses[1]	58	64	239	236
Total	**567**	**630**	**2,387**	**2,504**

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

NOTE 17 Other operating income and expenses

	4 Q 2017	4 Q 2016	2017	2016
Gain (loss) from sale, impairment of PPE	-11	-2	-27	-15
Other operating income	1	83	84	90
Foreign exchange gain (-loss)	-14	2	-97	-35
Fines, penalties and tax interest	15	15	15	15
Other operating expenses	-3	-3	-10	-11
Total	**-12**	**95**	**-35**	**44**

NOTE 18 Finance costs

	4 Q 2017	4 Q 2016	2017	2016
Interest cost	-137	-127	-499	-472
Other finance costs	-22	-46	-22	-47
Total	**-159**	**-173**	**-521**	**-519**

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NOTE 19 Earnings per share

Basic earnings per share		4 Q 2017	4 Q 2016	2017	2016
Weighted average number of shares (thousand)	pcs	40,795	40,795	40,795	40,795
Net profit		920	620	58	177
Basic earnings per share	**EUR**	**0.02**	**0.02**	**0.00**	**0.00**
Diluted earnings per share	**EUR**	**0.02**	**0.02**	**0.00**	**0.00**

In the twelve months ended on 31 December 2017 and 31 December 2016, the Group had no dilutive instruments. Instruments that could potentially dilute basic earnings per share are K-bonds, J-bonds and the share option program. Their dilutive effect is contingent on the share price and whether the Group has generated a profit.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in the reporting period was 0.28 euros (2016: 0.29 euros).

NOTE 20 Related parties

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

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

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

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

Transactions with related parties

Purchases	4 Q 2017	4 Q 2016	2017	2016
Services	6	6	24	24
Kokku	**6**	**6**	**24**	**24**

In 2017 and 2016, AS Baltika bought mostly management services from the related parties.

Balances with related parties

	31 Dec 2017	31 Dec 2016
Borrowings and interests (Note 8, 9)	3,681	2,973
Payables to related parties total	**3,681**	**2,973**

Information about the loans and interest to related parties is in Note 8 and 11.

All transactions in 2017 as well as in 2016 reporting periods and balances with related parties as at 31 December 2017 and 31 December 2016 were with entities under the control or significant influence of the members of the Management Board and Supervisory Board.

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Compensation for the members of the Management Board and Supervisory Board

	4 Q 2017	4 Q 2016	2017	2016
Salaries of the members of the Management Board (excluding social tax)	66	58	261	253
Remuneration of the members of the Supervisory Board (excluding social tax)	3	4	14	14
Total	**69**	**62**	**275**	**267**

As at 31 December 2017 and 31 December 2016, there were two Management Board Members and five Supervisory Board Members.

Changes in the Management Board in 2017

With a decision of AS Baltika Supervisory Board on 29 May 2017, Ingrid Uibukant was appointed as an additional member of AS Baltika Management Board. Ingrid was the head of purchasing and supply chain, which contains purchasing, production planning, logistics as well as quality and technical design department management.

On 11 November 2017, Supervisory Board decided to recall the head of purchasing and supply chain Ingrid Uibukant from the Management Board starting from 18th of December 2017. Management Board of Baltika AS will continue with two members: Chief Executive Officer Meelis Milder and Chief Financial Officer Maigi Pärnik-Pernik.

Changes in the Management Board in 2016

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

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

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

In 2015 share options were issued to the Management Board members under the share option program.

AS BALTIKA SUPERVISORY BOARD

JAAKKO SAKARI MIKAEL SALMELIN
Chairman of the Supervisory Board since 23 May 2012, Member of the Supervisory Board since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Management Board, KJK Management SA,
Member of the Management Board, KJK Capital Oy,
Member of the Management Board, KJK Invest Oy,
Member of the Management Board of Amiraali Invest Oy,
Member of the Management Board of UAB D Investiciju Valdymas.
Baltika shares held on 31 December 2017: 0

TIINA MÕIS
Member of the Supervisory Board 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 Board of AS LHV Pank and AS LHV Group,
Member of the Supervisory Board of Rocca al Mare Kool.
Baltika shares held on 31 December 2017: 977,837 shares (on AS Genteel account)

REET SAKS
Member of the Supervisory Board since 25.03.1997
Attorney at Ellex Raidla Law Office
Degree in Law, University of Tartu
Other assignments
Member of the Management board of Non-profit organization AIPPI Estonian workgroup
Baltika shares held on 31 December 2017: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Board since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Board 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 Kaima Capital Eesti OÜ,
Member of the Board of Aurejärvi Varainhoito Oy,
Member of the Board of UAB Malsena Plius,
Member of the Board of UAB D Investiciju Valdymas,
Member of the Board of Bostads AB Blåklinten Oy,
Member of the Board of KJK Serbian Holdings BV,
Member of the Board of AS Baltic Mill,
Member of the Board of KJK Investicije d.o.o,
Member of the Board of KJK Investicije 2 d.o.o,
Member of the Board of KJK Investicije 3 d.o.o,
Member of the Board of KJK Investicije 4 d.o.o,
Member of the Board of KJK Investicije 5 d.o.o,
Member of the Board of KJK Investicije 6 d.o.o,
Member of the Board of KJK Investicije 7 d.o.o,
Member of the Management Board of Amber Trust Management SA,
Member of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Board of KJK Fund II SICAV-SIF,
Member of the Supervisory Board of Salva Kindlustuse AS,
Chairman of the Supervisory Board of AS PRFoods,
Member of the Supervisory Board of Managetrade OÜ,
Member of the Supervisory Board of Toode AS,
Chairman of the Supervisory Board of JSC Rigas Dzirnavnieks,
Chairman of the Board of KJK Management SA,
Member of the Board of KJK Capital Oy,
Member of the Supervisory Board of AS Saaremere Kala,
Member of the Supervisory Board of Eurohold Bulgaria AD,
Member of the Board of Leader Group 2016 AD,
Director of KJK Bulgaria Holding EOOD,
Director of Amber Trust SCA,
Director of Amber Trust II SCA,
Member of Supervisory Board of AAS Baltijas Apdrosianas.
Baltika shares held on 31 December 2017: 24,590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Board since 20.04.2012
Chairman of the Board of Port of Tallinn
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Member of the Management Board of OÜ VK CO
Baltika shares held on 31 December 2017: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31 December 2017: 1,000,346 shares

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika shares 31 December 2017: 0