AS BALTIKA

Consolidated interim report for the third quarter and 9 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 – 30 September 2017

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Baltika Group Consolidated interim report for the III quarter and 9 months of 2017 (in thousands euros, unaudited)

BRIEF DESCRIPTION OF BALTIKA GROUP

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

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

As at 30 September 2017 the Group employed 1,025 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 30 Sept 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	Dormant	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, THIRD QUARTER AND NINE MONTHS OF 2017

Baltika Group's third quarter resulted in net loss in the amount of 471 thousand euros. The result of last year same period was a net loss of 296 thousand euros.

In the third quarter Group's revenue remained at the same level as last year and was 12,001 thousand euros. Retail revenue in the third quarter was 9,435 thousand euros, decreasing 1% compared to the same period last year. At the same time e-store and wholesale and franchise sales continued to increase. The retail sales in the Baltic region was mainly impacted by the August result, which stayed strongly below last year's level. The number of visitors in shopping centres decreased drastically in August probably due to warm weather, which in turn had a major impact on retail sales result. In the third quarter, Estonian retail market was the only market, which showed revenue growth.

Wholesale and franchise revenue increased 4% in third quarter and was 2,222 thousand euros. Starting from spring of 2017, Baltika sells Mosaic brand to Russian shopping centre chain Lady & Gentleman CITY. Mosaic collection is represented in five Lady & Gentleman CITY shopping centres in the largest cities in Russia. In addition to the new customer, sales growth is continually supported by franchise market in Serbia entered in the beginning of the year and Peek & Cloppenburg department stores chain. At the end of the third quarter there were 32 franchise stores representing Baltika's brands, forming 26% of the total stores portfolio. In nine months total the wholesale and franchise revenue increased 7% and was 5,443 thousand euros.

Revenue from Baltika Group's e-store Andmorefashion.com increased 29% in the third quarter and was 321 thousand euros. The best-selling brand in e-store was Monton, comprising of 32% from e-store revenue. As usual, the most popular product was the dress, which sold 2,500 pieces in the third quarter. Development of the e-store continued in third quarter: stores providing Click&Collect service in Latvia got an addition (adding the option to order e-shop packages to Monton store in Riga Spice), the e-shop homepage and shopping cart were updated, which improves e-customer's user experience. In nine months total, the e-store Andmorefashion.com revenue increased 38% and exceeded the one million euro threshold.

The company's gross profit margin in the third quarter was 44.0% decreasing by 1.4 percentage points in the year. Gross profit margin continues to be affected by higher markdowns in retail business compared to last year. The gross profit for the quarter was 5,284 thousand euros, decreasing by 148 thousand euros compared to last year's comparable result. The nine months total gross profit amounted to 16,548 thousand euros (9 months 2016: 16,922 thousand euros).

Group's third quarter and nine months total distribution and general expense remained at the last year level. The distribution and general expense ratio to revenue in the third quarter was 46.6% i.e. ratio has decreased by 0.1 percentage points in the year. In nine months total, the ratio was 49.4% (9 months 2016: 49.5%).

In nine months, Baltika's revenue increased 1% compared to same period last year. 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. Company ended the nine months with a loss in the amount of 862 thousand euros, the comparative result from previous year was a loss in the amount of 443 thousand euros. The main reason for the weak result is the lower than expected retail sales due to deeper mark-downs, which in turn decreased the gross profit.

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

- Financial Supervision Authority approved on 10th of July 2017 the Convertible K-bond offering prospectus. The offering comprises of 900 bonds with issuance price of 5,000 euros, therefore total of 4,500,000 euros. Bonds with the term of two year bear 6% interest p.a. Each bond gives to its owner the right to subscribe for 15,625 shares of the Company with subscription price 0.32 euros per share. The offer period ended on 16 August 2017 at 2 p.m. Public offering of bonds was exercised in 99% extent: from 900 bonds offered 889 bonds were subscribed, in the total amount of 4,445,000 euros. Subscription applications were submitted by shareholders of AS Baltika and also by other investors.

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- In August, AS Baltika redeemed 600 J-series bonds in total issue price of 3,000,000 euros. The three-year J-series bonds were issued on 28th of July 2014, bearing an annual interest of 6.5%, issuance price per bond was 5,000 euros. Each J-series bondholder had an opportunity to convert the bonds into the K-series convertible bonds, which was used: out of 600 J-series bonds 593 bonds with accrued interest were exchanged for K-series bonds. For the outstanding 7 J-bonds the company returned to investors the amounts paid for the bonds with accrued interests.

- On 30 August 2017 AS Baltika was informed of following changes in substantial shareholding: with a purchase of new shares on 30 August 2017 KJK Fund Sicav-SIF (on ING Luxembourg S.A. account) shareholding in AS Baltika has increased to 38.90 percentage and E.Miroglio Finance S.A (on Clearstream Banking Luxembourg S.A. account) shareholding has increased to 17.78 percentage. With a disposal of shares on 30 August 2017 OÜ BMIG shareholding in AS Baltika is 0 percentage and the shareholding under Meelis Milder control (direct holding, immediate family members and entities under his control) was 3.06 percentage.

- 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.

- 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 October, Baltika Group renewed its e-store growth strategy with a clear goal to increase sales outside the Baltic states. Within this process a market entry strategy was established that integrates strengths of a physical store with strengths of Baltika Group's e-store Andmorefashion.com. The goal is to offer unified customer experience across channels and connect the classical retail business with opportunities of an e-store. Currently, the first pilot project is prepared in order to use the strategy to enter Finnish market.

REVENUE

In the third quarter Baltika's revenue remained at the same level as last year and was 12,001 thousand euros. Wholesale and franchise as well as e-com revenue continue to show strong growth. Growth was largest with 29% in e-store. Retail sales decreased 1% in the third quarter. In nine months total company's revenue increased 1% i.e. 201 thousand euros compared to same period last year.

Revenue by activity

EUR thousand	3 Q 2017	3 Q 2016	+/-	9M 2017	9M 2016	+/-
Retail	9,435	9,547	-1%	27,850	28,265	-1%
Wholesale & Franchise	2,222	2,141	4%	5,443	5,106	7%
E-com sales	321	249	29%	1,041	753	38%
Other	23	29	-20%	156	165	-6%
Total	**12,001**	**11,966**	**0%**	**34,490**	**34,289**	**1%**

Stores and sales area

As at 30 September 2017, Group had 125 stores, among which 32 franchise stores.

Stores by market

	30 Sept 2017	30 Sept 2016	Average area change*

Estonia	43	44	3%
Lithuania	29	29	-1%
Latvia	21	21	4%
Ukraine[1]	15	16	-2%
Russia[1]	11	12	80%
Belarus[1]	2	2	-10%
Spain[1]	3	3	-34%
Serbia[1]	1	0	-
Total stores	**125**	**127**	
Total sales area, sqm	**23,354**	**23,485**	**0%**

*average area change also takes into account the time store is closed for renovation
[1]Franchise shops are with a total sales area of 6,172 m^2.

Retail

In the third quarter retail revenue totalled 9,435 thousand euros, decreasing 1% compared to same period last year. The third quarter sales result was mainly impacted by the August result, which stayed strongly below last year's level. At the end of July and at the beginning of August, warm summer weather arrived and drastically decreased the number of visitors in shopping centres, which had a major impact on retail sales result. Although, the weak result in August had an impact on all markets, Estonian market was able to show sales growth by 3% due to higher stock level.

Baltika's biggest retail market, Estonian market's, revenue increased 2% in nine months and was 13,660 thousand euros. At the same time, the revenue in other Baltic retail markets decreased, resulting in a total retail revenue of 27,850 thousand euros i.e. 1% less than in same period last year.

Retail sales by market

EUR thousand	3 Q 2017	3 Q 2016	+/-	Share	9M 2017	9M 2016	+/-	Share
Estonia	4,680	4,546	3%	50%	13,660	13,394	2%	49%
Lithuania	2,443	2,613	-7%	26%	7,148	7,694	-7%	26%
Latvia	2,312	2,388	-3%	24%	7,042	7,177	-2%	25%
Total	**9,435**	**9,547**	**-1%**	**100%**	**27,850**	**28,265**	**-1%**	**100%**

In the third quarter, Estonian retail market was the only market that showed growth both in revenue and in sales efficiency. Although nine months total sales in Estonia increased 2% compared to the same period last year, the sales efficiency was lower than in last year due to increase in sales area.

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

	3 Q 2017	3 Q 2016	+/-	9M 2017	9M 2016	+/-
Estonia	199	197	1%	195	197	-1%
Lithuania	147	161	-8%	143	153	-6%
Latvia	196	210	-7%	199	211	-6%
Total	**182**	**188**	**-3%**	**179**	**186**	**-4%**

Brands

In the third quarter, in retail Bastion brand continued to show growth compared to same period last year, at the same time Bastion sales area decreased and sales efficiency increased. In 2017, Bastion has been showing stable sales growth in every quarter and in nine months total, sales increased 11% and amounted to 1,353 thousand euros.

In addition to Bastion, Ivo Nikkolo showed sales growth as well, sales increased 4% and amounted to 971 thousand euros in the third quarter. In addition to growth in sales and sales area, the sales efficiency increased as well. In nine months total, brand's sales remained at the last year's level.

Declining result of Monton and Mosaic in the third quarter was mainly caused by aggressive sales campaign in June, which in turn resulted in the lowest stock level in the last years by the end of July.

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After the warm summer weeks in the beginning of August, both brands showed positive sales trend till the end of September. Baltika's largest brand Monton retail revenue was 4,024 thousand euros in the third quarter, which means a decrease of 2% compared to last year's third quarter. At the same time in nine months total Monton brand's retail revenue stayed at the last year's level.

Retail revenue by brand

EUR thousand	3 Q 2017	3 Q 2016	+/-	Share	9M 2017	9M 2016	+/-	Share
Monton	4,024	4,112	-2%	43%	11,812	11,832	0%	42%
Mosaic	2,865	2,941	-3%	30%	8,554	8,821	-3%	31%
Baltman	1,109	1,129	-2%	12%	3,269	3,421	-4%	12%
Ivo Nikkolo	971	931	4%	10%	2,850	2,857	0%	10%
Bastion	460	424	9%	5%	1,353	1,222	11%	5%
Other	6	10	-40%	0%	12	112	-89%	0%
Total	**9,435**	**9,547**	**-1%**	**100%**	**27,850**	**28,265**	**-1%**	**100%**

Sales in other channels

Wholesale and franchise revenue increased 4% in third quarter and was 2,222 thousand euros. Starting from spring of 2017, Baltika sells Mosaic brand to Russian shopping centre chain Lady & Gentleman CITY. Mosaic collection is represented in five Lady & Gentleman CITY shopping centres in the largest cities in Russia. Addition to the new customer, sales growth is continually supported by franchise market in Serbia entered in the beginning of the year and Peek & Cloppenburg department stores chain. The biggest brand in wholesale and franchise was Monton with 60% share of sales. At the end of the third quarter there were 32 franchise stores representing Baltika's brands, forming 26% of the total stores portfolio. In nine months total the wholesale and franchise revenue increased 7% and was 5,443 thousand euros.

Baltika Group's e-store Andmorefashion.com revenue increased 29% in the third quarter and was 321 thousand euros. The most-selling brand in e-store was Monton, comprising of 32% from e-store revenue. Mosaic, Ivo Nikkolo, Bastion and Baltman formed respectively 29%, 22%, 12% and 5% of the sales. By country, all three Baltic states grew equally: compared to the same period last year e-shop sales in Estonia increased 39%, in Latvia 36% and in Lithuania 31%. E-shop sales in Finland increased 22%. As usual, the most popular product was the dress, which sold 2,500 pieces in the third quarter. Development of the e-store continued in third quarter: stores providing Click&Collect service in Latvia got an addition (adding the option to order e-shop packages to Monton store in Riga Spice), the e-shop homepage and shopping cart were updated, which improves e-customer's user experience and navigation options. In nine months total, the e-store Andmorefashion.com revenue increased 38% and exceeded the one million euro threshold (1,041 thousand euros).

OPERATING EXPENSES AND NET PROFIT

The company's gross profit margin in the third quarter was 44.0%, which is 1.4 percentage points lower than in the same period last year. Gross profit margin continues to be affected by higher markdowns in retail business compared to last year. The gross profit for the quarter was 5,284 thousand euros, decreasing by 148 thousand euros compared to last year's comparable result. The nine months total gross profit amounted to 16,548 thousand euros (9 months 2016: 16,922 thousand euros).

Distribution expense in the third quarter was 5,053 thousand euros, increasing by 68 thousand euros compared to the same period last year. Distribution expense in the head office remained at the same level as last year, at the same time retail markets' distribution expense has increased 2% i.e. 70 thousand euros. Increase in retail markets' expense is mainly attributable to increased sales area. General and administrative expense decreased in third quarter by 64 thousand euros and was 541 thousand euros. Third quarter and nine months total distribution, general and administrative expense remained at last year's level.

The distribution and general expense ratio to revenue in the third quarter was 46.6% i.e. ratio has decreased by 0.1 percentage points in the year. In nine months total, the ratio was 49.4% (9 months 2016: 49.5%).

Other operating net expense in the third quarter was 43 thousand euros and the operating loss was 353 thousand euros. In same period last year, the operating loss was 172 thousand euros.

The net financial expense in the third quarter was 118 thousand euros, which is 6 thousand euros less than in the same period last year.

The third quarter resulted in a net loss in the amount of 471 thousand euros. Net loss in the same period in the previous year was 296 thousand euros. Nine months resulted in a net loss in the amount of 862 thousand euros, net loss in comparable period was in the amount of 443 thousand euros.

FINANCIAL POSITION

As at 30 September 2017, Baltika Group inventories totalled 10,716 thousand euros, decreasing 380 thousand euros compared to last year-end. Compared to the same seasonal period ended on 30 September last year inventories decreased by 555 thousand euros. Goods and goods purchased for resale inventories have decreased the most, by 506 thousand euros. Fabrics and accessories inventories have increased by 33 thousand euros. Work-in-progress inventories and prepayments to suppliers have decreased by 82 thousand euros.

As at 30 September 2017 trade receivables were 3,380 thousand euros, which is 1,424 thousand euros more than at the end of last year. Compared to the same seasonal period ended on 30 September last year, trade receivables increased by 702 thousand euros. Trade receivables have mainly increased due to an increase in wholesale and franchise sales, where the customers have longer payment periods and due to sales from the beginning of new season. In addition, some of the partners had unexpected weak results in the first half-year.

As at 30 September 2017 the total borrowings amounted to 9,613 thousand euros, which together with the usage of overdraft facility signifies an increase of 2,582 thousand euros compared to the last year-end (31 December 2016: 7,031 thousand euros). The increase in borrowings is attributable to the increase in the usage of overdraft due to the seasonal business cycle. Compared to same seasonal period last year, the overdraft is used in the same amount. Borrowings has increased also due to the emission of K-series bond in August.

In the third quarter, purchases of fixed assets were made in the amount of 64 thousand euros and deprecation of 303 thousand euros was recorded. Property, plant and equipment and intangible assets at residual value decreased by 639 thousand euros compared to last year-end and were 4,059 thousand euros.

The third quarter operating activities cash-flows were -1,114 thousand euros (III quarter 2016: -1,241 thousand euros). Cash outflow from operating activities was mainly related to financing working capital, cash flow before financing working capital is -62 thousand euros. Investments were made in the amount of 59 thousand euros (III quarter 2016: 327 thousand euros). Bank loan repayments were made in the amount of 288 thousand euros and 863 thousand euros were received from the emission of K-bonds. Group's third quarter total cash flow was net positive with 124 thousand euros (III quarter 2016: -28 thousand euros).

As at 30 September 2017 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 9,185 thousand euros, which is 2,573 thousand euros more than at the end of last year. The net debt to equity ratio was 215% as at 30 September 2017. Compared to same seasonal business cycle on 30 September 2016 Group's net debt to equity ratio is on comparable level (30 September 2016: 202%). Compared to last year end, 31 December 2016, the net debt to equity ratio has deteriorated mainly due to the increase in borrowings (increased usage of overdraft) and due to the emission of K-series bonds in August. The company's current ratio has improved from 1.0 to 1.5 in comparable periods.

PEOPLE

As at 30 September 2017 Baltika Group employed 1,025 people, which is 24 people more than at 31 December 2016 (1,049): 488 (31.12.2016: 487) in the retail system, 360 (31.12.2016: 380) in manufacturing and 177 (31.12.2016: 182) at the head office and logistics centre. The 2017 nine months average number of staff in the Group was 1,049 (9 months 2016: 1,080).

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Baltika Group employees' remuneration expense in nine months amounted to 7,934 thousand euros (9 months 2016: 7,849 thousand euros). The remuneration expense of the members of the Supervisory Board and Management Board totalled 206 thousand euros (9 months 2016: 206 thousand euros).

KEY FIGURES OF THE GROUP (III QUARTER AND 9 MONTHS 2017)

	Q3 2017	Q3 2016	Q3 2015[1]	Q3 2015	Q3 2014	Q3 2013
Revenue (EUR thousand)	12,001	11,966	12,002	13,149	14,648	14,209
Retail sales (EUR thousand)	9,435	9,547	10,290	11,437	12,664	12,949
Share of retail sales in revenue	78.6%	79.8%	85.7%	87.0%	86.5%	91.1%
Gross margin	44.0%	45.4%	44.6%	45.1%	49.0%	48.9%
EBITDA (EUR thousand)	-36	151	-86	-181	579	-266
Net profit (EUR thousand)	-471	-296	-520	-650	151	-784
EBITDA margin	-0.3%	1.3%	-0.7%	-1.4%	4.0%	-1.9%
Operating margin	-2.9%	-1.4%	-3.3%	-4.0%	2.0%	-4.6%
EBT margin	-3.9%	-2.5%	-4.3%	-4.9%	1.1%	-5.5%
Net margin	-3.9%	-2.5%	-4.3%	-4.9%	1.0%	-5.5%

Sales activity key figures	**9M and 30 Sept 2017**	**9M and 30 Sept 2016**	**9M and 30 Sept 2015[1]**	**9M and 30 Sept 2015**	**9M and 30 Sept 2014**	**9M and 30 Sept 2013**
Revenue (EUR thousand)	34,490	34,289	35,301	38,655	41,320	41,659
Retail sales (EUR thousand)	27,850	28,265	30,317	33,671	37,368	38,838
Share of retail sales in revenue	80.7%	82.4%	85.9%	87.1%	90.4%	93.2%
Share of exports in revenue	56.3%	56.7%	57.1%	60.8%	65.9%	67.0%
Number of stores in retail	93	94	94	104	102	119
Number of stores	125	127	121	131	120	119
Sales area at the end of period (sqm)	17,299	17,094	17,044	19,881	19,867	23,192
Number of employees (end of period)	1,025	1,060	1,111	1,196	1,215	1,311
Gross margin	48.0%	49.4%	47.0%	47.3%	50.7%	53.2%
EBITDA (EUR thousand)	457	882	80	-376	-434	806
Net profit (EUR thousand)	-862	-443	-1,176	-1,719	-1,638	-763
EBITDA margin	1.3%	2.6%	0.2%	-1.0%	-1.1%	1.9%
Operating margin	-1.4%	-0.3%	-2.3%	-3.5%	-3.3%	-0.8%
EBT margin	-2.5%	-1.3%	-3.3%	-4.5%	-4.0%	-1.8%
Net margin	-2.5%	-1.3%	-3.3%	-4.4%	-4.1%	-1.8%
Inventory turnover	2.14	2.15	2.01	2.05	2.02	2.10

Other ratios[2]						
Current ratio	1.5	1.0	1.3	1.3	2.1	1.6
Net gearing ratio	215.3%	202.0%	117.5%	117.5%	94.6%	57.5%
Return on equity	-19.1%	-10.1%	-21.1%	-21.1%	-16.9%	-7.4%
Return on assets	-4.5%	-2.3%	-7.3%	-7.3%	-7.1%	-3.2%

[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.

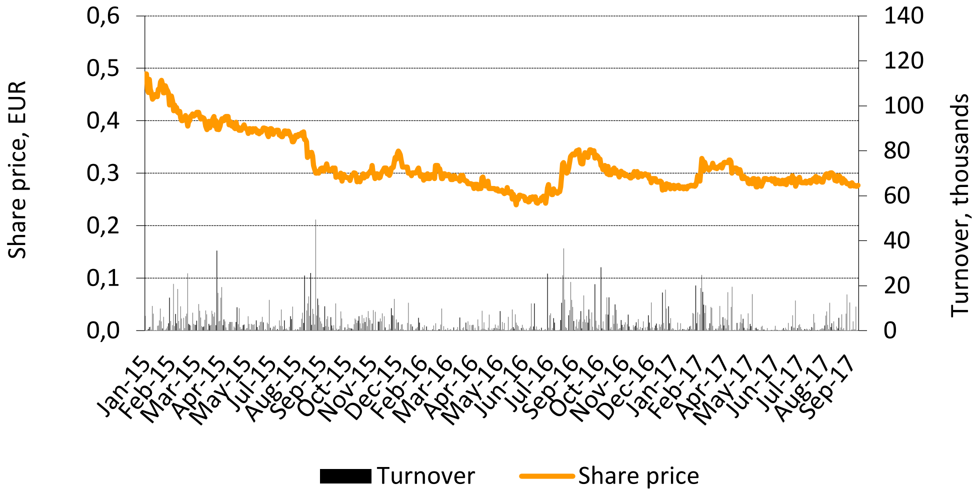
Definitions of key ratios

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
19 October 2017

Maigi Pärnik-Pernik
Member of the Management Board
19 October 2017

Ingrid Uibukant
Member of the Management Board
19 October 2017

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 third quarter and 9 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
19 October 2017

Maigi Pärnik-Pernik
Member of the Management Board
19 October 2017

Ingrid Uibukant
Member of the Management Board
19 October 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 Sept 2017	31 Dec 2016
ASSETS			
Current assets			
Cash and cash equivalents	3	428	419
Trade and other receivables	4	3,380	1,956
Inventories	5	10,716	11,096
Total current assets		**14,524**	**13,471**
Non-current assets			
Deferred income tax asset		228	228
Other non-current assets	4	529	522
Property, plant and equipment	6	2,519	3,022
Intangible assets	7	1,540	1,676
Total non-current assets		**4,816**	**5,448**
TOTAL ASSETS		**19,340**	**18,919**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	8	4,197	5,835
Trade and other payables	9,10	5,461	6,923
Total current liabilities		**9,658**	**12,758**
Non-current liabilities			
Borrowings	8	5,416	1,196
Total non-current liabilities		**5,416**	**1,196**
TOTAL LIABILITIES		**15,074**	**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 (loss) for the period		-862	177
TOTAL EQUITY		**4,266**	**4,965**
TOTAL LIABILITIES AND EQUITY		**19,340**	**18,919**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Revenue	12,13	12,001	11,966	34,490	34,289
Cost of goods sold	14	-6,717	-6,534	-17,942	-17,367
Gross profit		**5,284**	**5,432**	**16,548**	**16,922**
Distribution costs	15	-5,053	-4,985	-15,205	-15,094
Administrative and general expenses	16	-541	-605	-1,820	-1,874
Other operating income (-expense)	17	-43	-14	-23	-51
Operating loss		**-353**	**-172**	**-500**	**-97**
Finance costs	18	-118	-124	-362	-346
Loss before income tax		**-471**	**-296**	**-862**	**-443**
Net loss for the period		**-471**	**-296**	**-862**	**-443**
Basic earnings per share from net loss for the period, EUR	19	-0.01	-0.01	-0.02	-0.01
Diluted earnings per share from net loss for the period, EUR	19	-0.01	-0.01	-0.02	-0.01

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CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Net loss for the period	**-471**	**-296**	**-862**	**-443**
Other comprehensive income				
Total other comprehensive income	0	0	0	0
Total comprehensive loss	**-471**	**-296**	**-862**	**-443**

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CONSOLIDATED CASH FLOW STATEMENT

	Note	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Cash flows from operating activities					
Operating loss		-353	-172	-500	-97
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	303	321	941	966
Gain (loss) from sale, impairment of PPE, non-current assets, net		14	1	16	13
Other non-monetary expenses		39	-145	38	116
Changes in working capital:					
Change in trade and other receivables	4	-844	-632	-1,431	-1,008
Change in inventories	5	1,184	588	380	-847
Change in trade and other payables	9	-1,392	-1,149	-1,007	-849
Interest paid		-65	-53	-197	-171
Income tax paid		0	0	0	-1
Net cash generated from operating activities		**-1,114**	**-1,241**	**-1,760**	**-1,878**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-64	-327	-291	-943
Proceeds from disposal of PPE		5	0	7	0
Net cash used in investing activities		**-59**	**-327**	**-284**	**-943**
Cash flows from financing activities					
Received borrowings	8	0	1,500	500	1,500
Repayments of borrowings	8	-288	-225	-832	-551
Change in bank overdraft	8	809	331	1,707	1,855
Repayments of finance lease		-52	-66	-150	-155
Repayments of convertible notes		-35	0	-35	0
Proceeds from convertible notes issuance		863	0	863	0
Net cash generated (used in) financing activities		**1,297**	**1,540**	**2,053**	**2,649**
Total cash flows		**124**	**-28**	**9**	**-172**
Cash and cash equivalents at the beginning of the period	3	**304**	**254**	**419**	**398**
Cash and cash equivalents at the end of the period	3	**428**	**226**	**428**	**226**
Change in cash and cash equivalents		**124**	**-28**	**9**	**-172**

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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**
Loss for the period	0	0	0	-443	-443
Total comprehensive loss	**0**	**0**	**0**	**-443**	**-443**
Balance as at 30 Sept 2016	**8,159**	**496**	**1,182**	**-5,492**	**4,345**
Balance as at 31 Dec 2016	**8,159**	**496**	**1,182**	**-4,872**	**4,965**
Loss for the period	0	0	0	-862	-862
Total comprehensive loss	**0**	**0**	**0**	**-862**	**-862**
Value of conversion feature on convertible notes	0	0	163	0	163
Balance as at 30 Sept 2017	**8,159**	**496**	**1,345**	**-5,734**	**4,266**

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 second quarter ended 30 September 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:

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Average currencies	**9M 2017**	**9M 2016**
USD (US dollar)	-0.20%	0.16%

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

Balance-sheet date rates (30 Sept 2017; 31 Dec 2016)	
USD (US dollar)	12%

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

In 2017 and 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. 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 1,092 thousand euros at 30 September 2017 and 1,196 thousand euros at 31 December 2016 were subject to a floating 6 month interest rate based on Euribor (Note 8). 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 the price risk with respect to financial instruments as it does not hold any equity securities.

Credit risk

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

Cash and cash equivalents

For banks and financial institutions, mostly independently rated parties with a minimum rating of "A" are accepted as long-term counterparties in 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 30 September 2017 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted to 3,147 thousand euros (31 December 2016: 1,713 thousand euros) on a net basis after allowances.

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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.

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 30 September 2017 was 673 thousand euros (31 December 2016: 2,380 thousand euros).

Financial liabilities by maturity at 30 September 2017

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	5,063	4,221	1,040	5,261
Finance lease liabilities (Note 8)	226	138	95	233
Convertible bonds (Note 8)	4,324	0	4,994	4,994
Trade payables (Note 9)	2,617	2,617	0	2,617
Other financial liabilities	34	34	0	34
Total	**12,264**	**7,010**	**6,129**	**13,139**

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's long term goal is to maintain the net gearing ratio under 50%. At the end of the reporting period the ratio was 215%. In the end of 2016 the ratio was 133%. Compared to the same quarter last year, the ratio has remained stable (ratio at 30 September 2016: 202%). The deterioration of the ratio compared to the year end is influenced by the increased usage of overdraft and the issuance of K-bonds in August. 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

	30 Sept 2017	**31 Dec 2016**
Interest carrying borrowings (Note 8)	9,613	7,031
Cash and bank (Note 3)	-428	-419
Net debt	9,185	6,612
Total equity	4,266	4,965
Net gearing ratio	**215%**	**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 30 September 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.

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NOTE 3 Cash and cash equivalents

	30 Sept 2017	31 Dec 2016
Cash at hand	102	110
Cash at bank and overnight deposits	326	309
Total	**428**	**419**

All cash and cash equivalents are in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables	30 Sept 2017	31 Dec 2016
Trade receivables, net	2 894	1 467
Other prepaid expenses	205	195
Tax prepayments and tax reclaims, thereof	270	280
Value added tax	270	280
Other current receivables	11	14
Total	**3 380**	**1 956**
Long-term assets		
Non-current lease prepayments	276	276
Other long-term receivables	253	246
Total	**529**	**522**

All trade and other receivables are in euros.

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

30 Sept 2017	Baltic region	Eastern European region	Other regions	Total
Not due	521	1,215	257	1,993
Up to 1 month past due	7	143	41	191
1-3 months past due	0	390	79	469
3-6 months past due	3	143	65	211
Over 6 months past due	19	0	11	30
Total	**550**	**1,891**	**453**	**2,894**

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

	30 Sept 2017	31 Dec 2016
Fabrics and accessories	1,514	1,906
Work-in-progress	78	78
Finished goods and goods purchased for resale	8,870	8,885
Allowance for impairment of finished goods and goods purchased for resale	0	-340
Prepayments to suppliers	254	567
Total	**10,716**	**11,096**

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NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments, PPE not in yet in use	Total
31 December 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	461	64	457	2	984
Disposals	-20	0	-32	0	-52
Reclassification	0	1	2	-3	0
PPE impairment	-7	0	-4	0	-11
Depreciation	-245	-97	-396	0	-738
30 September 2016					
Acquisition cost	**2,868**	**4,773**	**4,844**	**0**	**12,485**
Accumulated depreciation	-1,772	-4,338	-3,282	0	-9,392
Net book amount	**1,096**	**435**	**1,562**	**0**	**3,093**
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	138	21	177	0	336
Disposals	-7	-1	-37	0	-45
Depreciation	-293	-88	-413	0	-794
30 September 2017					
Acquisition cost	**2,928**	**4,707**	**4,848**	**0**	**12,483**
Accumulated depreciation	-1,998	-4,367	-3,599	0	-9,964
Net book amount	**930**	**340**	**1,249**	**0**	**2,519**

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NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
31 December 2015					
Acquisition cost	**2,261**	**1,243**	**0**	**509**	**4,013**
Accumulated depreciation	-1,732	-337	0	0	-2,069
Net book amount	**529**	**906**	**0**	**509**	**1,944**
Additions	14	0	2	0	16
Amortisation	-196	-32	0	0	-228
30 September 2016					
Acquisition cost	**2,275**	**1,243**	**2**	**509**	**4,029**
Accumulated depreciation	-1,928	-369	0	0	-2,297
Net book amount	**347**	**874**	**2**	**509**	**1,732**
31 December 2016					
Acquisition cost	**2,092**	**1,243**	**0**	**509**	**3,844**
Accumulated depreciation	-1,787	-381	0	0	-2,168
Net book amount	**305**	**862**	**0**	**509**	**1,676**
Additions	11	0	2	0	13
Amortisation	-116	-33	0	0	-149
30 September 2017					
Acquisition cost	**2,103**	**1,243**	**2**	**509**	**3,857**
Accumulated depreciation	-1,903	-414	0	0	-2,317
Net book amount	**200**	**829**	**2**	**509**	**1,540**

NOTE 8 Borrowings

	30 Sept 2017	31 Dec 2016
Current borrowings		
Current portion of bank loans	736	1,019
Overdraft	3,327	1,620
Current portion of finance lease liabilities	134	196
Convertible bonds (Note 11)	0	3,000
Total	**4,197**	**5,835**
Non-current borrowings		
Non-current bank loans	1,000	1,046
Non-current finance lease liabilities	92	150
Convertible bonds (Note 11)	4,324	0
Total	**5,416**	**1,196**
Total borrowings	**9,613**	**7,031**

During the reporting period, the Group made loan repayments in the amount of 832 thousand euros (2016: 551 thousand euros). Group´s overdraft facilities with the banks were used in the amount of 3,327 thousand euros as at 30 September 2017 (31 December 2016: 1,620 thousand euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 362 thousand euros, including 150 thousand euros interest expense from the convertible bonds of related party (2016: 345 thousand euros, including 135 thousand euros interest expense from the loan of related party).

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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 July 2018.

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 30 September 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%	5,289
K-Bonds (Note 11) *	6.0%	4,445
Total		**9,734**

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 (Note 11)	6.50%	3,000
Total		**7,031**

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

NOTE 9 Trade and other payables

	30 Sept 2017	31 Dec 2016
Current liabilities		
Trade payables	2,617	3,259
Tax liabilities, thereof	1,392	1,603
Personal income tax	205	220
Social security taxes and unemployment insurance premium	497	536
Value added tax	614	770
Other taxes	76	77
Payables to employees[1]	967	991
Other accrued expenses	54	527
Customer prepayments	50	166
Other current payables	34	30
Total	**5,114**	**6,576**

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[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

	30 Sept 2017	31 Dec 2016
EUR (euro)	2,064	2,630
USD (US dollar)	607	1,156
Total	**2,671**	**3,786**

NOTE 10 Provisions

	30 Sept 2017	31 Dec 2016
Client bonus provision	347	347
Total	**347**	**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.

NOTE 11 Equity

Share capital and reserves

	30 Sept 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 30 September 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 30 September 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 30 Sept 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.

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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.

Shareholders as at 30 September 2017

	Number of shares	Holding
1. ING Luxembourg S.A.	15,870,914	38.90%
2. Clearstream Banking Luxembourg S.A. clients	7,295,355	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	1,182,171	2.90%
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	10,816,595	26.52%
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.

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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 and Lithuania. 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.

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
3 Quarter 2017			
Revenue (from external customers)	9,435	2,566	12,001
Segment profit[2]	1,061	586	1,647
Incl. depreciation and amortisation	-232	-11	-243
3 Quarter 2016			
Revenue (from external customers)	9,547	2,419	11,966
Segment profit[2]	1,286	441	1,727
Incl. depreciation and amortisation	-218	-19	-237
9M 2017 and as at 30 Sept 2017			
Revenue (from external customers)	27,850	6,640	34,490
Segment profit[2]	3,442	1,352	4,794
Incl. depreciation and amortisation	-700	-48	-748
Inventories of segments	5,115	0	5,115

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9M 2016 and as at 30 Sept 2016			
Revenue (from external customers)	28,265	6,024	34,289
Segment profit[2]	4,151	1,027	5,178
Incl. depreciation and amortisation	-631	-57	-688
Inventories of segments	5,309	0	5,309

[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 loss

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Total segment profit	1,647	1,727	4,794	5,178
Unallocated expenses[1]:				
Costs of goods sold and distribution costs	-1,416	-1,280	-3,451	-3,350
Administrative and general expenses	-541	-605	-1,820	-1,874
Other operating income (expenses), net	-43	-14	-23	-51
Operating loss	**-353**	**-172**	**-500**	**-97**

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

Reconciliation of segment inventories to consolidated inventories

	30 Sept 2017	31 Dec 2016	30 Sept 2016
Total inventories of segments	5,115	4,392	5,309
Inventories in Parent company and production company	5,601	6,704	5,962
Inventories on statement of financial position	**10,716**	**11,096**	**11,271**

NOTE 13 Revenue

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Sale of goods in retail channel	9,435	9,547	27,850	28,265
Sale of goods in wholesale and franchise channel	2,222	2,141	5,443	5,106
Sale of goods in e-commerce channel	321	249	1,041	753
Other sales	23	29	156	165
Total	**12,001**	**11,966**	**34,490**	**34,289**

Sales by geographical (client location) areas

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Estonia	5,186	5,021	15,086	14,833
Latvia	2,451	2,524	7,457	7,576
Lithuania	2,505	2,669	7,334	7,838
Russia	539	729	1,581	1,513
Ukraine	408	383	920	890
Germany	281	217	623	322
Serbia	131	0	353	0
Austria	155	49	343	61
Spain	132	169	301	495
Belarus	76	65	206	166
Finland	76	134	198	534
Other countries	61	6	88	61
Total	**12,001**	**11,966**	**34,490**	**34,289**

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NOTE 14 Cost of goods sold

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Materials and supplies	5,481	5,354	14,711	14,394
Payroll costs in production	957	900	2,702	2,603
Operating lease expenses	170	169	513	506
Other production costs	88	91	294	293
Depreciation of assets used in production (Note 6,7)	21	20	62	71
Change in allowance for inventories	0	0	-340	-500
Total	**6,717**	**6,534**	**17,942**	**17,367**

NOTE 15 Distribution costs

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Payroll costs	2,220	2,260	6,797	6,816
Operating lease expenses	1,648	1,578	4,875	4,733
Advertising expenses	330	326	968	978
Depreciation and amortisation (Note 6,7)	268	268	825	798
Fuel, heating and electricity costs	107	118	353	377
Municipal services and security expenses	84	83	249	254
Fees for card payments	56	58	167	171
Information technology expenses	48	39	132	127
Travel expenses	41	42	126	128
Consultation and management fees	36	29	91	84
Communication expenses	24	26	74	78
Other sales expenses[1]	191	158	548	550
Total	**5,053**	**4,985**	**15,205**	**15,094**

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

NOTE 16 Administrative and general expenses

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Payroll costs	276	285	913	898
Operating lease expenses	99	108	321	327
Information technology expenses	46	51	146	167
Bank fees	21	51	105	129
Depreciation and amortisation (Note 6,7)	14	33	54	97
Management, juridical-, auditor´s and other consulting fees	8	12	52	34
Fuel, heating and electricity expenses	13	14	48	50
Other administrative expenses[1]	64	51	181	172
Total	**541**	**605**	**1,820**	**1,874**

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

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NOTE 17 Other operating income and expenses

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Gain (loss) from sale, impairment of PPE	-15	0	-16	-13
Other operating income	0	1	83	7
Foreign exchange gain (-loss)	-26	-15	-83	-37
Other operating expenses	-2	0	-7	-8
Total	**-43**	**-14**	**-23**	**-51**

NOTE 18 Finance costs

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Interest cost	-118	-124	-362	-345
Other finance costs	0	0	0	-1
Total	**-118**	**-124**	**-362**	**-346**

NOTE 19 Earnings per share

Basic earnings per share		3 Q 2017	3 Q 2016	9M 2017	9M 2016
Weighted average number of shares (thousand)	pcs	40 795	40 795	40 795	40 795
Net loss		-471	-296	-862	-443
Basic earnings per share	**EUR**	**-0.01**	**-0.01**	**-0.02**	**-0.01**
Diluted earnings per share	**EUR**	**-0.01**	**-0.01**	**-0.02**	**-0.01**

There were no dilutive instruments in the reporting period. Instruments that could potentially dilute basic earnings per share are K-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 0.29 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.

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Transactions with related parties

Purchases	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Services	6	3	18	9
Total	**6**	**3**	**18**	**9**

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

Balances with related parties

	30 Sept 2017	31 Dec 2016
Loans and interest (Note 8, 9)	3,627	2,973
Payables to related parties total	**3,627**	**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 30 September 2017 and 31 December 2016 were with entities under the control or significant influence of the members of the Management Board and Supervisory Board.

Compensation for the members of the Management Board and Supervisory Board

	3 Q 2017	3 Q 2016	9M 2017	9M 2016
Salaries of the members of the Management Board (excluding social tax)	60	61	195	195
Remuneration of the members of the Supervisory Board (excluding social tax)	4	4	11	11
Total	**64**	**65**	**206**	**206**

As at 30 September 2017 there were three Management Board Members and as at 31 December 2016 there were two Management Board Members. As at 30 September 2017 and 31 December 2016 there were 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 is appointed as an additional member of AS Baltika Management Board. Ingrid is 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 Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy,
Member of the Management Board, KJK Invest Oy,
Member of the Management Board of Amiraali Invest Oy.
Baltika shares held on 30 September 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,
Baltika shares held on 30 September 2017: 977,837 shares (on AS Genteel account)

REET SAKS

Member of the Supervisory Board since 25.03.1997
Attorney at Raidla Ellex 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 30 September 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,
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 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 Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy.
Baltika shares held on 30 September 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 30 September 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 30 September 2017: 1,182,171 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 30 September 2017: 0

INGRID UIBUKANT
Member of the Management Board, Head of Purchasing and Supply Chain
Member of the Board since 2017, in the Group since 2001
Business Administration, Tallinn University of Technology,
Baltika shares 30 September 2017: 0