



Baltika Group

AS BALTIKA

Consolidated interim report for the third quarter and 9 months of 2018

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
Fax	+372 630 2814
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 2018 – 31 December 2018
Reporting period	1 January 2018 – 30 Septembers 2018



CONTENTS

Brief description of Baltika Group	3
Management report	4
Management board's confirmation of the management report	11
Interim financial statements	12
Consolidated statement of financial position	13
Consolidated statement of profit and loss and comprehensive income	14
Consolidated cash flow statement	15
Consolidated statement of changes in equity	16
Notes to consolidated interim report	17
NOTE 1 Accounting policies and methods used in the preparation of the interim report	17
NOTE 2 Financial risks	17
NOTE 3 Cash and cash equivalents	21
NOTE 4 Trade and other receivables	21
NOTE 5 Inventories	22
NOTE 6 Property, plant and equipment	22
NOTE 7 Intangible assets	22
NOTE 8 Borrowings	23
NOTE 9 Trade and other payables	24
NOTE 10 Provisions	25
NOTE 11 Equity	25
NOTE 12 Segments	26
NOTE 13 Revenue	28
NOTE 14 Cost of goods sold	28
NOTE 15 Distribution costs	29
NOTE 16 Administrative and general expenses	29
NOTE 17 Other operating income and expenses	29
NOTE 18 Finance costs	29
NOTE 19 Earnings per share	30
NOTE 20 Related parties	30
AS Baltika Supervisory Board	32
AS Baltika Management Board	34



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 2018 the Group employed 991 people (31 December 2017: 1,026).

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 2018	Holding as at 31 Dec 2017
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	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%

¹Interest through a subsidiary.

²Interest through Baltman OÜ



MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, THIRD QUARTER AND 9 MONTHS OF 2018

Baltika Group ended the third quarter with a loss of 814 thousand euros. The result for the same period last year was a loss of 471 thousand euros.

In the third quarter Group's revenue decreased 8% compared to same period last year and was 11,026 thousand euros. The biggest sales segment – retail revenue was 9,404 thousand euros, remaining at the level of same period last year. The reason for the decline of Group's revenue in the third quarter was decrease in wholesale and franchise sale by nearly million euros.

Wholesale and franchise revenue was 1,212 thousand euros in the third quarter, decreasing 45% compared to year before. The main reasons for the decline in sales are difficult economic situation in Ukraine and decreased purchase power of local population; and the rearrangement of the company's current wholesale model, which is no longer working in today's fashion sector, according to the Group's 2022 Strategy. Negative impact of the rearrangement of the export strategy on the financial results has been expected, yet the decline in sales volumes has been faster than planned. The biggest decline in sales volume is attributable to the amendment of cooperation agreement with Peek & Cloppenburg, one of the leading department store chain in Germany and Central Europe, according to which Monton collections are no longer sold in most department stores in Germany. Changes were made in accordance with reseller's new strategy and selection of brands offered in department store chain's home market. Baltika will continue co-operation with the partner in Peek & Cloppenburg's department stores located in Central and Eastern European region, where five new sales areas will be added this year-end, which renewed concession based cooperation model is in compliance with the Baltika's 2022 Strategy and allowing more active joint operation and merchandising management. In third quarter, three new selling points were opened on retail spaces belonging to the partner Montecristo SL, in Slovenia and Croatia. Preparations are in order to open two more sales areas in Novi-Sad Serbia in the fourth quarter. At the end of the third quarter there were 27 franchise stores representing Baltika's brands, forming 22% of the total stores portfolio. In nine months, wholesale and franchise revenue decreased 31% and amounted to 3,748 thousand euros.

In retail, compared to previous years, this year's third quarter was characterised by significant growth of sales in light-weight products like dresses, blouses, skirts. At the same time, outerwear and knitwear, which are traditional for autumn season, formed an unusually low volume of sales. Due to the change in the overall fashion trend, the sale of formal clothing has also decreased. The postponement of the sale of autumn-winter clothes led to a third-quarter retail sales volume remaining at the last year's level.

Baltika Group's e-store Andmorefashion.com revenue increased 20% in the third quarter compared to same period last year and was 386 thousand euros. Gross profit margin improved by 3.8 percentage points in the third quarter and gross profit increased 34%. Gross profit growth was attributable to better inventory management, due to which the offering of the discounted products in e-store was more modest than last year. Monton formed 35% of the quarter sales, followed by Mosaic with 28%. Compared to the third quarter last year, sales increased in Estonia 26%, in Latvia 19%, in Lithuania 18%. Nine months in total, e-store sales increased 19% and revenue totalled 1,235 thousand euros.

The company's gross profit margin in the third quarter was 45.6% that is 1.6 percentage points higher than the margin in the third quarter last year. As the result of collections' good sell-through of in the first half-year, the inventory level of the previous seasons had smaller share and full-priced new season goods were sold more. The gross profit for the quarter was 5,033 thousand euros, decreasing 5% compared to the third quarter last year (IIIQ 2017: 5,284 thousand euros). Nine months in total, company's gross profit amounted to 15,948 thousand euros (9 months 2017: 16,548 thousand euros).

In the third quarter, Group's distribution expenses increased by 2% that is mainly related to growth of rent expenses of retail sales area and entering Finnish market. Administrative expenses increased 6%, in third quarter; but nine months in total, the expenses decreased 5%. Due to lower sales volume, distribution and general expense ratio to revenue increased by 5.5 percentage points to 52.1%, in the third quarter.

In nine months, Baltika's revenue decreased 6%, compared to same period last year. E-store showed revenue growth 19%, retail revenue decreased 2% and wholesale and franchise sales decreased 31%. Company ended nine months with a loss of 1,669 thousand euros, the comparative result from previous year was a loss of 862 thousand euros. The main reasons of the nine months' weak result were the



decrease in wholesale and franchise sales in the second and third quarter and increased distribution expenses due to entering Finnish retail market.

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

- ✚ In August meeting, the Supervisory Board of AS Baltika extended the contract of the member of the Management Board Meelis Milder for another 3-year term. The Management Board will continue with two members: Meelis Milder and Maigi Pärnik-Pernik.
- ✚ In August, the Supervisory Board of AS Baltika approved the specified action plan for 'Strategy 2022' implementation. The plan comprises 16 projects, of which the most important focus on three areas: internationalization, digitalization and customer centricity.
- ✚ Baltika's strategy implementation, focusing on three key themes (customer focus, international growth and digitalization), is progressing according to expectation. Portfolio of projects has been set up, which will ensure strategy realization throughout the business model. The projects are monitored and controlled regularly, incl. steering group meetings, business cases and common knowledge sharing. Most projects have already been started and are currently in analysis/design phase. Some of the biggest achievements so far are within the fields of: customer experience management; merchandising (implementing an artificial intelligence solution) and product development (piloting a 3D design).
- ✚ In the third quarter, two franchise stores were closed – one in Ukraine and one in Russia.

REVENUE

In the third quarter Baltika's revenue was 11,026 thousand euros, decreasing 8% compared to same period last year. By sales channels comparison, e-commerce showed positive result with 20% growth of sales. Retail remained on the level of third quarter last year.

Revenue by activity

EUR thousand	3 Q 2018	3 Q 2017	+/-	9M 2018	9M 2017	+/-
Retail	9,404	9,435	0%	27,257	27,850	-2%
Wholesale & Franchise	1,212	2,222	-45%	3,748	5,443	-31%
E-com sales	386	321	20%	1,235	1,041	19%
Other	24	23	4%	170	156	9%
Total	11,026	12,001	-8%	32,410	34,490	-6%

Stores and sales area

As at 30 September 2018, Group had 120 stores, among them 27 franchise stores. In the third quarter, the number of stores decreased by two - franchise stores were closed in Kiev, Ukraine and St. Petersburg, Russia.

Stores by market

	30 Sept 2018	30 Sept 2017	Average area change*
Estonia	40	43	-1%
Lithuania	30	29	1%
Latvia	22	21	1%
Finland	1	0	-
Ukraine ¹	12	15	-9%
Russia ¹	10	11	-7%
Belarus ¹	2	2	-3%
Spain ¹	2	3	-29%
Serbia ¹	1	1	32%
Total stores	120	125	
Total sales area, sqm	22,650	23,354	-2%

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

¹Franchise shops are with a total sales area of 5,234 m².



Retail

Retail revenue in the third quarter was 9,404 thousand euros, remaining at the level of same period last year. Compared to previous years, this year's third quarter was characterised by significant growth of sales in light-weight products like shirts, blouses, tops, dresses and skirts. At the same time, outerwear and knitwear, which are traditional for autumn season, formed an unusually low volume of sales. Due to the change in the overall fashion trend, the sale of formal clothing has also decreased. In nine months total, retail sales decreased 2% and totalled 27,257 thousand euros.

Retail sales by market

EUR thousand	3 Q 2018	3 Q 2017	+/-	Share	9M 2018	9M 2017	+/-	Share
Estonia	4,369	4,680	-7%	46%	13,124	13,660	-4%	48%
Lithuania	2,551	2,443	4%	27%	7,005	7,148	-2%	26%
Latvia	2,447	2,312	6%	26%	7,023	7,042	0%	26%
Finland	37	0	-	0%	105	0	-	0%
Total	9,404	9,435	0%	100%	27,257	27,850	-2%	100%

In the third quarter, the sales efficiency improved in Latvia (+4%) and in Lithuania (+3%). In Estonia, sales per square meter decreased 3%. Total efficiency in retail remained at the level of third quarter last year. In nine months total, efficiency decreased 3%.

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

	3 Q 2018	3 Q 2017	+/-	9M 2018	9M 2017	+/-
Estonia	193	199	-3%	188	195	-4%
Lithuania	152	147	3%	140	143	-2%
Latvia	204	196	4%	197	199	-1%
Finland	91	0	-	88	0	-
Total	181	182	0%	174	179	-3%

Brands

The brand with the biggest share continues to be Monton, which revenues formed 45% of retail sales in the third quarter. Monton's third quarter sales were 4,258 thousand euros, increasing 6%. Compared to last year's same period, Monton women's collection showed better results throughout the third quarter. Despite the fact that the sale of Mosaic women's new collection was significantly more successful in August, the brand's quarterly revenue fell 5% year on year, and revenue for the nine months decreased 3%. Due to the fall of overall fashion trend of formal clothing, sale of suits and jackets has decreased, which reflects also in Baltman's sales numbers – quarterly revenue decreased 8%.

In addition to Monton, the smallest brand by its sales' volume, Bastion, also maintained the last year sales level in nine months total. Sales revenue of premium brands, Ivo Nikkolo and Baltman, decreased compared to nine months in last year, respectively 4% and 7%.

Retail revenue by brand

EUR thousand	3 Q 2018	3 Q 2017	+/-	Share	9M 2018	9M 2017	+/-	Share
Monton	4,258	4,024	6%	45%	11,828	11,812	0%	43%
Mosaic	2,734	2,865	-5%	29%	8,285	8,554	-3%	30%
Baltman	1,020	1,109	-8%	11%	3,042	3,269	-7%	11%
Ivo Nikkolo	937	971	-4%	10%	2,737	2,850	-4%	10%
Bastion	454	460	-1%	5%	1,355	1,353	0%	5%
Other	1	6	-83%	0%	10	12	-17%	0%
Total	9,404	9,435	0%	100%	27,257	27,850	-2%	100%

Sales in other channels

Wholesale and franchise revenue was 1,212 thousand euros in the third quarter, decreasing 45% compared to year before. The main reason for the decline in sales is the rearrangement of the company's current wholesale model, which is no longer working in today's fashion sector, according to the Group's 2022 Strategy, which focuses on international growth through new offer to the wholesale and franchise partners that promotes brand awareness and includes active management of merchandising. Although



the negative impact of the rearrangement of the export strategy on the financial results has been expected, the decline in sales volumes has been faster than planned. One reason for the decline in the third quarter's sales was still lower franchise sales to Russia and Ukraine. Due to difficult economic situation in Ukraine, declined purchase power of local population and repeated devaluation of the Ukrainian hryvnia, the solvency of these franchise partners has worsened and in relation to risen risk, Baltika has been reduced the amount of shipped goods to the partners. The biggest decline in sales volume is attributable to the amendment of cooperation agreement with one of the leading department store chain in Germany and Central Europe, Peek & Cloppenburg, according to which Monton collections are no longer sold in most department stores in Germany due to partner's new home market strategy and rearranged brand portfolio. Baltika will continue cooperation with the partner in Peek & Cloppenburg department stores located in Central and Eastern European region, where five new sales areas will be added this year-end. Sales to partner in Tenerife has also decreased as result of partner's decision to close another Monton store due to lack of customers visiting the island, brand's low awareness and high operating expenses. In third quarter, three new selling points were opened on retail spaces belonging to the partner Montecristo SL, in Slovenia and Croatia. Preparations are in order to open two more sales areas in Novi-Sad, Serbia in the fourth quarter. At the end of the third quarter, there were 27 franchise stores representing Baltika's brands, forming 22% of the total stores portfolio. Wholesale and franchise revenue decreased 31% in nine months and was 3,748 thousand euros.

Baltika Group's e-store Andmorefashion.com revenue increased 20% in the third quarter compared to same period last year and was 386 thousand euros. Gross profit margin improved by 3.8 percentage points in the third quarter and gross profit increased 34%. Gross profit growth was attributable to better inventory management, due to which the offering of the discounted products in e-store was more modest than last year. The conversion rate has improved as well, increasing 21% compared to third quarter last year. Conversion rate improvement was highest in Latvia and Lithuania. Monton formed 35% of the quarter's e-store sales and sales revenues increased 36% compared to year before. Next largest brand Mosaic formed 28% of sales and increased 17% in a year. In the third quarter, 8,200 orders were received and 18,000 products were shipped. Compared to the third quarter last year, in largest markets, e-store sales increased as follows: in Estonia 26%, in Latvia 19%, in Lithuania 18%. E-store sales increase was 19% and revenue totalled 1,235 thousand euros, in nine months total.

OPERATING EXPENSES AND NET PROFIT

The company's gross profit margin in the third quarter was 45.6% that is higher by 1.6 percentage points than the margin in the third quarter of last year. Gross profit margin increased in third quarter mainly due to decreased share of wholesale and franchise sale, which is the sales segment with lower margin. E-store helped improve the margin as well - the volume of discounted sales was significantly lower than in the third quarter last year. Gross profit for the quarter was 5,033 thousand euros, decreasing by 251 thousand euros compared to the same period last year (IIIQ 2017: 5,284 thousand euros). Nine months in total, company's gross profit amounted to 15,948 thousand euros, that is less by 600 thousand euros than in comparable period in 2017.

Group's distribution expense in the third quarter was 5,168 thousand euros, increasing by 115 thousand euros compared to the same period last year. Distribution expense in the head office remained at level of comparable period last year. Distribution expenses has increased in retail segment due to growth of operating expenses related to rental agreements and costs related to entering Finnish market. Groups's distribution expense increased 2% and administrative and general expenses increased 6% in the third quarter. Due to decreased sales, the third quarter's distribution and general expense ratio to revenue increased within a year by 5.5 percentage points to 52.1%. Nine months in total, the Group's total distribution, administrative and general expenses increased by 1% and amounted to 17,237 thousand euros.

Other operating income was 37 thousand euros in the third quarter and operating loss was 670 thousand euros. In same period last year, the operating loss was 353 thousand euros.

Net financial expense in the third quarter was 144 thousand euros, which is 26 thousand euros more than in the same period last year.

The quarter resulted in a net loss of 814 thousand euros. Net loss of the comparable period was 471 thousand euros. Nine months resulted in a net loss of 1,669 thousand euros; net loss in comparable period was for 862 thousand euros.



FINANCIAL POSITION

As at 30 September 2018, Baltika Group trade and other receivables amounted to 3,633 thousand euros, increasing by 1,578 thousand euros compared to last year-end. Compared to the same seasonal period ended on 30 September last year, trade and other receivables increased by 253 thousand euros, which is attributable to growth of tax prepayments.

As at the end of the quarter, Group's inventories totalled 11,251 thousand euros, increasing by 752 thousand euros compared to last year-end. Finished goods and goods purchased for resale has increased by 1,241 thousand euros. At the same time the decrease was in fabrics and accessories by 362 thousand euros and also in prepayments to suppliers by 127 thousand euros. Compared to same seasonal business cycle as at the end of September last year, inventories increased by 535 thousand euros, which is attributable to goods and goods purchased for resale.

In the third quarter, purchases of fixed assets were made in the amount of 92 thousand euros and depreciation was 262 thousand euros. Property, plant and equipment and intangible assets at residual value decreased by 455 thousand euros compared to last year-end and were 3,453 thousand euros.

As at 30 September 2018 the total borrowings amounted to 9,934 thousand euros, which together with the use of overdraft facility signifies an increase of 3,262 thousand euros compared to last year-end (31 December 2017: 6,672 thousand euros). The increase in borrowings is attributable to received loan in amount of 1,000 thousand euros in the third quarter and to the increase in the use of overdraft due to the seasonal business cycle. Compared to same seasonal business cycle as at the end of September last year, the use of overdraft is of the same magnitude. As at 30 September 2018, convertible bonds, previously classified as long-term liabilities, are reported under short-term liabilities.

In May, the annual general meeting of shareholders decided to decrease the nominal value of the share from 0.2 euros to 0.1 euros to cover prior period losses in a simplified way. Share capital was decreased to 4,079 thousand euros. With the use of reserves and decrease of the nominal value of the share retained earnings increased by 4,814 euros, share premium decreased by 496 euros and statutory reserve decreased by 238 thousand euros.

The third quarter operating activities cash-flow was -1,280 thousand euros (III quarter 2017: -1,114 thousand euros). In the third quarter, investments were made in the amount of 92 thousand euros. Overdraft in use increased by 683 thousand euros, bank loan was received in the amount of 1,000 thousand euros and loan repayments were made in the amount of 127 thousand euros. Group's third quarter total cash flow was 170 thousand euros (III quarter 2017: 124 thousand euros).

As at 30 September 2018 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 9,380 thousand euros, which is 3,412 thousand euros more than at the end of last year. The net debt to equity ratio was 267% as at 30 September 2018 (31 December 2017: 115%). Compared to last year end the net debt to equity ratio has deteriorated mainly due to received loan and increase in borrowings attributable to seasonality (increased usage of overdraft). Compared to same seasonal business cycle last year, Group's net debt to equity ratio has increased (30 September 2017: 215%) mainly due to increase in borrowings. Group's current ratio have fallen from 1.5 to 1.1 over 12 months (as at 30 September 2017 and as at 30 September 2018), due to classification of the convertible bonds liabilities as current.

PEOPLE

As at 30 September 2018 Baltika Group employed 991 people, which is 35 people less than at 31 December 2017 (1,026), thereof 468 (31.12.2017: 488) in the retail system, 347 (31.12.2017: 363) in manufacturing and 176 (31.12.2017: 175) at the head office and logistics centre. The 2018 nine months' average number of staff in the Group was 1,012 (9 months 2017: 1,049).

Baltika Group employees' remuneration expense in nine months amounted to 8,028 thousand euros (9 months 2017: 7,934 thousand euros). The remuneration expense of the members of the Supervisory Board and Management Board totalled 187 thousand euros (9 months 2017: 206 thousand euros).



KEY FIGURES OF THE GROUP (III QUARTER AND 9 MONTHS 2018)

	Q3 2018	Q3 2017	Q3 2016	Q3 2015 ¹	Q3 2015	Q3 2014
Revenue (EUR thousand)	11,026	12,001	11,966	12,002	13,149	14,648
Retail sales (EUR thousand)	9,404	9,435	9,547	10,290	11,437	12,664
Share of retail sales in revenue	85.3%	78.6%	79.8%	85.7%	87.0%	86.5%
Gross margin	45.6%	44.0%	45.4%	44.6%	45.1%	49.0%
EBITDA (EUR thousand)	-407	-36	151	-86	-181	579
Net profit (EUR thousand)	-814	-471	-296	-520	-650	151
EBITDA margin	-3.7%	-0.3%	1.3%	-0.7%	-1.4%	4.0%
Operating margin	-6.1%	-2.9%	-1.4%	-3.3%	-4.0%	2.0%
EBT margin	-7.4%	-3.9%	-2.5%	-4.3%	-4.9%	1.1%
Net margin	-7.4%	-3.9%	-2.5%	-4.3%	-4.9%	1.0%

Sales activity key figures	9M and 30 Sept 2018	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
Revenue (EUR thousand)	32,410	34,490	34,289	35,301	38,655	41,320
Retail sales (EUR thousand)	27,257	27,850	28,265	30,317	33,671	37,368
Share of retail sales in revenue	84.1%	80.7%	82.4%	85.9%	87.1%	90.4%
Share of exports in revenue	55.1%	56.3%	56.7%	57.1%	60.8%	65.9%
Number of stores in retail	93	93	94	94	104	102
Number of stores	120	125	127	121	131	120
Sales area (sqm) (end of period)	17,416	17,299	17,094	17,044	19,881	19,867
Number of employees (end of period)	991	1,025	1,060	1,111	1,196	1,215
Gross margin	49.2%	48.0%	49.4%	47.0%	47.3%	50.7%
EBITDA (EUR thousand)	-457	457	882	80	-376	-434
Net profit (EUR thousand)	-1,669	-862	-443	-1,176	-1,719	-1,638
EBITDA margin	-1.4%	1.3%	2.6%	0.2%	-1.0%	-1.1%
Operating margin	-3.9%	-1.4%	-0.3%	-2.3%	-3.5%	-3.3%
EBT margin	-5.1%	-2.5%	-1.3%	-3.3%	-4.5%	-4.0%
Net margin	-5.1%	-2.5%	-1.3%	-3.3%	-4.4%	-4.1%
Inventory turnover	2.05	2.14	2.15	2.01	2.05	2.02

Other ratios ²	9M and 30 Sept 2018	9M and 30 Sept 2017	9M and 30 Sept 2016	9M and 30 Sept 2015	9M and 30 Sept 2014
Current ratio	1.1	1.5	1.0	1.3	2.1
Net gearing ratio	266.7%	215.3%	202.0%	117.5%	94.6%
Return on equity	-38.3%	-19.1%	-10.1%	-21.1%	-16.9%
Return on assets	-9.1%	-4.5%	-2.3%	-7.3%	-7.1%

¹In 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.

²Other 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

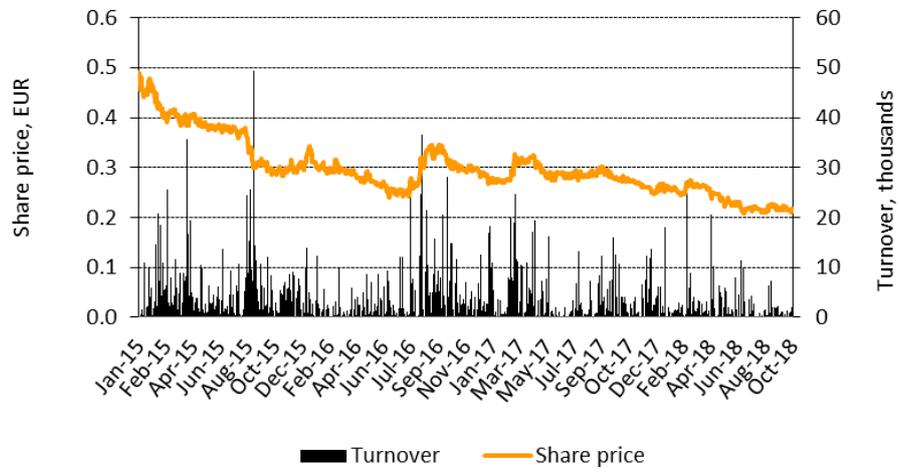
Return on equity (ROE) = Net profit /Average equity*

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
18 October 2018

Maigi Pärnik-Pernik
Member of the Management Board
18 October 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 third quarter and 9 months of 2018 as presented on pages 12-31.

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
18 October 2018

Maigi Pärnik-Pernik
Member of the Management Board
18 October 2018

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	30 Sept 2018	31 Dec 2017
ASSETS			
Current assets			
Cash and cash equivalents	3	554	704
Trade and other receivables	4	3,633	2,055
Inventories	5	11,251	10,499
Total current assets		15,438	13,258
Non-current assets			
Deferred income tax asset		189	189
Other non-current assets	4	448	487
Property, plant and equipment	6	1,963	2,395
Intangible assets	7	1,490	1,513
Total non-current assets		4,090	4,584
TOTAL ASSETS		19,528	17,842
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	8	8,583	1,309
Trade and other payables	9,10	6,077	5,984
Total current liabilities		14,660	7,293
Non-current liabilities			
Borrowings	8	1,351	5,363
Total non-current liabilities		1,351	5,363
TOTAL LIABILITIES		16,011	12,656
EQUITY			
Share capital at par value	11	4,079	8,159
Share premium		0	496
Reserves	11	1,107	1,345
Retained earnings		0	-4,872
Net profit (loss) for the period		-1,669	58
TOTAL EQUITY		3,517	5,186
TOTAL LIABILITIES AND EQUITY		19,528	17,842

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME**

	Note	3Q 2018	3Q 2017	9M 2018	9M 2017
Revenue	12,13	11,026	12,001	32,410	34,490
Cost of goods sold	14	-5,993	-6,717	-16,462	-17,942
Gross profit		5,033	5,284	15,948	16,548
Distribution costs	15	-5,168	-5,053	-15,504	-15,205
Administrative and general expenses	16	-572	-541	-1,733	-1,820
Other operating income (-expense)	17	37	-43	24	-23
Operating loss		-670	-353	-1,265	-500
Finance costs	18	-144	-118	-404	-362
Loss before income tax		-814	-471	-1,669	-862
Income tax expense		0	0	0	0
Net loss for the period		-814	-471	-1,669	-862
Total comprehensive loss for the period		-814	-471	-1,669	-862
Basic earnings per share from net loss for the period, EUR	19	-0.02	-0.01	-0.04	-0.02
Diluted earnings per share from net loss for the period, EUR	19	-0.02	-0.01	-0.04	-0.02

**CONSOLIDATED CASH FLOW STATEMENT**

	Note	3Q 2018	3Q 2017	9M 2018	9M 2017
Cash flows from operating activities					
Operating profit (loss)		-670	-353	-1,265	-500
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	262	303	807	941
Gain (loss) from sale, impairment of PPE, non-current assets, net		0	14	4	16
Other non-monetary adjustments		0	39	0	38
Changes in working capital:					
Change in trade and other receivables	4	-759	-844	-1,539	-1,431
Change in inventories	5	239	1,184	-752	380
Change in trade and other payables	9	-296	-1,392	-295	-1,007
Interest paid and other financial expense		-56	-65	-144	-197
Net cash generated from operating activities		-1,280	-1,114	-3,184	-1,760
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-92	-64	-356	-291
Proceeds from disposal of PPE		0	5	0	7
Net cash used in investing activities		-92	-59	-356	-284
Cash flows from financing activities					
Received borrowings	8	1,000	0	1,000	500
Repayments of borrowings	8	-127	-288	-455	-832
Change in bank overdraft	8	683	809	2,932	1,707
Repayments of finance lease		-14	-52	-87	-150
Repayments of borrowings	11	0	-35	0	-35
Redemption of share options		0	863	0	863
Net cash generated from (used in) financing activities		1,542	1,297	3,390	2,053
Total cash flows		170	124	-150	9
Cash and cash equivalents at the beginning of the period					
	3	384	304	704	419
Cash and cash equivalents at the end of the period					
	3	554	428	554	428
Change in cash and cash equivalents		170	124	-150	9



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
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
Balance as at 31 Dec 2017	8,159	496	1,345	-4,814	5,186
Loss for the period	0	0	0	-1,669	-1,669
Total comprehensive loss	0	0	0	-1,669	-1,669
Reduction of the nominal value of the share	-4,080	-496	-238	4,814	0
Balance as at 30 Sept 2018	4,079	0	1,107	-1,669	3,517



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 employs 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 third quarter ended 30 September 2018 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 2017, 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 2017. New and revised standards and interpretations effective from 1 January 2018 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 the 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. Risk management 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 variable 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 Nasdaq Tallinn, the Financial Supervision Authority and other regulatory bodies, adherence to generally accepted accounting principles, as well as the company's internal regulations and risk policies. Overall risk management includes identification, measurement and control of risks. The management of the Parent company plays a major role in managing risks and approving risk procedures. The Supervisory Board of the Group's Parent company monitors the management's risk management activities.

Market risk

Foreign exchange risk

In 2018 and 2017 all sales were made in euros. The Group's foreign exchange risk is related to purchases done 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	9M 2018	9M 2017
USD (US dollar)	-10.23%	-0.20%



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

Balance-sheet date rates (30.09.2018; 31.12.2017)

USD (US dollar)	-3.48%
-----------------	--------

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. Trade payables (Note 9) are also in foreign currency and therefore open to foreign exchange risk.

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

The Group's interest rate risk arises mainly from current and non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. Interest rate risk is primarily caused by the potential fluctuations of Euribor and 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 1,351 thousand euros at 30 September 2018 and 953 thousand euros at 31 December 2017 were subject to a floating 6 month interest rate based on Euribor. The remaining non-current borrowings in the amount of 4,445 thousand euros (at nominal value) at 31 December 2017 were subject to a fixed interest rate. The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

During the financial year and the previous financial year, the Group's management evaluated and recognised the extent of the interest rate risk. However, the Group uses no hedging instruments to manage the risks arising from fluctuations in interest rates, as it finds the extent of the interest-rate risk to be insignificant.

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 as well as all outstanding 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 and Finland.

Trade receivables

As at 30 September 2018 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 4) amounted to 3,049 thousand euros (31 December 2017: 1,874 thousand euros) on a net basis after allowances.

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

Liquidity risk

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



To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, issuance of additional shares and monitors the terms of receivables and purchase contracts. The unused limit of the Group's overdraft facilities as at 30 September 2018 was 431 thousand euros (31 December 2017: 3,363 thousand euros).

Financial liabilities by maturity at 30 September 2018

	Carrying amount	Undiscounted cash flows ¹		
		1-12 months	1-5 years	Total
Loans (Note 8) ²	5,564	4,422	1,344	5,766
Finance lease liabilities (Note 8)	88	37	59	96
Convertible bonds (Note 8)	4,282	4,994	0	4,994
Trade payables (Note 9)	2,785	2,785	0	2,785
Other financial liabilities	417	417	0	417
Total	13,136	12,655	1,403	14,058

Financial liabilities by maturity at 31 December 2017

	Carrying amount	Undiscounted cash flows ¹		
		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

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

²Used overdraft facilities are shown under loans 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 market – Russia, Ukraine, Belarus).

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

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 fabric manufacturers has been expanded.

The unavoidable risk factor in selling clothes is the weather. Collections are created and sales volumes as well as timing of sales is planned under the assumption that regular weather conditions prevail in the



target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating operating and economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as going concern in order to provide returns for shareholders and benefits for other stakeholders 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.

Loan agreements with the banks include certain restrictions and obligations to provide information to the bank concerning payments of dividends, changes in share capital and in cases of supplementing additional capital.

Commercial Code sets requirement to equity level – the required level of equity has to be minimum 50% of share capital.

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 267%. In the end of 2017 the ratio was 115%. The deterioration of the ratio compared to the year end is influenced by the seasonality of the business characteristic to the first 9 months and the resulting increased borrowings. 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 2018	31 Dec 2017
Interest carrying borrowings (Note 8)	9,934	6,672
Cash and bank (Note 3)	-554	-704
Net debt	9,380	5,968
Total equity	3,517	5,186
Net gearing ratio	267%	115%

Fair value

The Group estimates that the fair values of the financial assets and liabilities denominated 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 2018 and 31 December 2017.

Trade receivables and payables are recorded in the carrying amount less an impairment provision, and as trade receivables and payables are short term then their fair value is estimated by management to approximate their balance value.

Regarding to the Group's long-term borrowings that have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. The Group's risk margins have not changed considerably and are reflecting the market conditions. 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. Based on that, the Management estimates that the fair value of long-term borrowings does not



significantly differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTE 3 Cash and cash equivalents

	30 Sept 2018	31 Dec 2017
Cash at hand	113	120
Cash at bank and overnight deposits	441	584
Total	554	704

All cash and cash equivalents are denominated in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables	30 Sept 2018	31 Dec 2017
Trade receivables, net	2,898	1,628
Other prepaid expenses	223	181
Tax prepayments and tax reclaims, thereof	453	198
Value added tax	453	198
Other current receivables	59	48
Total	3,633	2,055
Long-term assets		
Non-current lease prepayments	287	276
Other long-term receivables	161	211
Total	448	487

All trade and other receivables are in euros.

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

	Baltic region	Eastern European region	Other regions	Total
30 Sept 2018				
Not due	410	752	174	1,336
Up to 1 month past due	5	490	0	495
1-3 months past due	0	304	15	319
3-6 months past due	0	292	0	292
Over 6 months past due	1	427	28	456
Total	416	2,265	217	2,898
31 Dec 2017				
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

**NOTE 5 Inventories**

	30 Sept 2018	31 Dec 2017
Fabrics and accessories	1,552	1,914
Work-in-progress	97	97
Finished goods and goods purchased for resale	9,205	8,174
Allowance for impairment of finished goods and goods purchased for resale	0	-210
Prepayments to suppliers	397	524
Total	11,251	10,499

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Total
31.12.2016				
Acquisition cost	2,838	4,718	4,813	12,369
Accumulated depreciation	-1,746	-4,310	-3,291	-9,347
Net book amount	1,092	408	1,522	3,022
Additions	138	21	177	336
Disposals	-7	-1	-37	-45
Depreciation	-293	-88	-413	-794
30.09.2017				
Acquisition cost	2,928	4,707	4,848	12,483
Accumulated depreciation	-1,998	-4,367	-3,599	-9,964
Net book amount	930	340	1,249	2,519
31.12.2017				
Acquisition cost	2,925	4,743	4,878	12,546
Accumulated depreciation	-2,064	-4,372	-3,715	-10,151
Net book amount	861	371	1,163	2,395
Additions	156	41	108	305
Disposals	0	0	-4	-4
Depreciation	-271	-91	-371	-733
30.09.2018				
Acquisition cost	2,960	4,719	4,770	12,449
Accumulated depreciation	-2,214	-4,398	-3,874	-10,486
Net book amount	746	321	896	1,963

NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
31.12.2016					
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	-86	-22	0	0	-108
30.09.2017					
Acquisition cost	2,103	1,243	2	509	3,857
Accumulated depreciation	-1,873	-403	0	0	-2,276
Net book amount	230	840	2	509	1,581
31.12.2017					
Acquisition cost	2,107	1,243	0	509	3,859
Accumulated depreciation	-1,921	-425	0	0	-2,346
Net book amount	186	818	0	509	1,513
Additions	2	0	49	0	51
Amortisation	-16	-58	0	0	-74
30.09.2018					
Acquisition cost	2,109	1,243	49	509	3,910
Accumulated depreciation	-1,937	-483	0	0	-2,420
Net book amount	172	760	49	509	1,490

NOTE 8 Borrowings

	30 Sept 2018	31 Dec 2017
Current borrowings		
Current portion of bank loans	698	575
Overdraft	3,569	637
Current portion of finance lease liabilities	34	97
Share options (Note 11)	4,282	0
Total	8,583	1,309
Non-current borrowings		
Non-current bank loans	1,297	875
Non-current finance lease liabilities	54	78
Convertible bonds, share options (Note 11)	0	4,410
Total	1,351	5,363
Total borrowings	9,934	6,672

During the reporting period, the Group made loan repayments in the amount of 455 thousand euros (2017: 832 thousand euros). Group's overdraft facilities with the banks were used in the amount of 3,569 thousand euros as at 30 September 2018 (31 December 2017: 637 thousand euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 404 thousand euros, including 163 thousand euros interest expense from the convertible bonds of related party (2017: 362 thousand euros, including 135 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 year 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 2018

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

In July an annex under the existing facility agreement was signed, which extended the other overdraft's repayment date until July 2019 (in the amount of 3,000 thousand euros). With the same annex the existing loan repayment period was extended to be over three years and an additional investment loan in the amount of 1,000 thousand euros was agreed, which will be repaid during the next 3 years. In the third quarter the loan was taken into use.

Interest carrying loans and bonds of the Group as at 30 September 2018

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR +3,7% or EONIA +3,8%	5,652
K-Bonds (Note 11)	6.00%	4,445
Total		10,097

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 or 6-month Euribor)	EURIBOR or EONIA +3,8%	2,262
K-Bonds (Note 11)	6.00%	4,445
Total		6,707

NOTE 9 Trade and other payables

	30 Sept 2018	31 Dec 2017
Current liabilities		
Trade payables	2,785	2,994
Tax liabilities, thereof	1,394	1,465
Personal income tax	140	189
Social security taxes and unemployment insurance premium	535	527
Value added tax	629	716
Other taxes	90	33
Payables to employees ¹	1,002	1,010
Other current payables ²	417	22
Other accrued expenses	72	36
Customer prepayments	76	126
Total	5,746	5,653

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

²Information about the liabilities to related parties is in Note 20.

Trade payables and other accrues expenses in denominated currency

	30 Sept 2018	31 Dec 2017
EUR (euro)	1,753	1,954
USD (US dollar)	1,104	1,076
Total	2,857	3,030

**NOTE 10 Provisions**

	30 Sept 2018	31 Dec 2017
Client bonus provision	331	331
Total	331	331

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.

Assumptions used

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 2017.

NOTE 11 Equity**Share capital and reserves**

	30 Sept 2018	31 Dec 2017
Share capital	4,079	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.10	0.20
Statutory reserve	944	1,182
Other reserves	163	163

As at 30 September 2018, under the Articles of Association, the company’s minimum share capital is 4,000 thousand euros and the maximum share capital is 16,000 thousand euros. As at 31 December 2017, under the Articles of Association, the company’s minimum share capital was 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. As at September 2018 and 31 December 2017 all shares have been paid for. As at 30 September 2018 and 31 December 2017 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange.

Changes in year 2018

On 16 May 2018, the annual general meeting of shareholders decided to decrease the nominal value of the share from 0.2 euros to 0.1 euros. Share capital was decreased to 4,079 thousand euros. With the use of reserves and decrease of the nominal value of the share retained earnings increased by 4 814 euros, share premium decreased by 496 euros and statutory reserve decreased by 238 thousand euros.

Convertible bonds and share option program

	Issue date	Share subscription period	Number of convertible bonds 30 Sept 2018	Number of convertible bonds 31 Dec 2017
K-Bond	16 August 2017	15 July 2019 - 18 August 2019	889	889

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).

Share option programs

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.

On 16 May 2018, 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 0.10 euro subscription price of 0.10 euro related to the share option program. The share options are granted amongst others to the Management Board members and vest three years after signing the option agreement if the Baltika share price increase conditions are fulfilled.

Shareholders as at 30 September 2018

	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. SEB S.A. clients	3,407,305	8.35%
4. Luksusjaht AS	900,237	2.21%
5. Svenska Handelsbanken clients	870,000	2.13%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	1,000,346	2.45%
Persons related to members of Management Board	228,583	0.56%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	10,219,818	25.06%
Total	40,794,850	100%

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. SEB S.A. clients	3,407,305	8.35%
4. Svenska Handelsbanken clients	1,000,000	2.45%
5. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	1,000,346	2.45%
Persons related to members of Management Board	220,083	0.54%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
6. Other shareholders	10,998,555	26.97%
Total	40,794,850	100.00%

The shares of the Parent company are listed on the Nasdaq Tallinn. The Parent company does not have a controlling shareholder or any 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 wholesale, franchise and e-commerce). The retail segments are countries which have been aggregated to reportable segments by regions which share similar economic characteristics and meet other aggregation criteria provided in IFRS 8.

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.

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	All other segments ¹	Total
3 Q 2018			
Revenue (from external customers)	9,404	1,622	11,026
Segment profit (loss) ²	974	341	1,315
Incl. depreciation and amortisation	-210	0	-210
3 Q 2017			
Revenue (from external customers)	9,435	2,566	12,001
Segment profit (loss) ²	1,061	586	1,647
Incl. depreciation and amortisation	-232	-11	-243
9M 2018 and as at 30 Sept 2018			
Revenue (from external customers)	27,256	5,154	32,410
Segment profit (loss) ²	3,071	988	4,059
Incl. depreciation and amortisation	-647	-1	-648
Inventories of segments	5,188	0	5,188
9M 2017 and as at 30 Sept 2017			
Revenue (from external customers)	27,850	6,640	34,490
Segment profit (loss) ²	3,442	1,352	4,794
Incl. depreciation and amortisation	-700	-48	-748
Inventories of segments	5,115	0	5,115

¹All other segments include sale of goods to wholesale and franchise clients, materials and sewing services and the sales from e-commerce.

²The segment profit is the segment operating profit.

**Reconciliation of segment profit to consolidated operating profit**

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Total segment profit	1,315	1,647	4,059	4,794
Unallocated expenses ¹ :				
Costs of goods sold and distribution costs	-1,450	-1,416	-3,615	-3,451
Administrative and general expenses	-572	-541	-1,733	-1,820
Other operating income (expenses), net	37	-43	24	-23
Operating profit (loss)	-670	-353	-1,265	-500

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

Reconciliation of segment inventories to consolidated inventories

	30 Sept 2018	30 Sept 2017	31 Dec 2017
Total inventories of segments	5,188	5,115	3,902
Inventories in Parent company and production company	6,063	5,601	6,597
Inventories on statement of financial position	11,251	10,716	10,499

NOTE 13 Revenue

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Sale of goods in retail channel	9,404	9,435	27,257	27,850
Sale of goods in wholesale and franchise channel	1,212	2,222	3,748	5,443
Sale of goods in e-commerce channel	386	321	1,235	1,041
Other sales	24	23	170	156
Total	11,026	12,001	32,410	34,490

Sales by geographical (client location) areas

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Estonia	4,807	5,186	14,544	15,086
Latvia	2,553	2,451	7,371	7,457
Lithuania	2,621	2,505	7,206	7,334
Russia	475	539	1,326	1,581
Ukraine	235	408	611	920
Germany	25	281	218	623
Austria	155	155	350	343
Cyprus	2	53	109	222
Serbia	39	131	111	353
Spain	-74	132	75	301
Finland	107	76	302	198
Other countries	81	84	187	72
Total	11,026	12,001	32,410	34,490

NOTE 14 Cost of goods sold

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Materials and supplies	4,812	5,481	13,132	14,711
Payroll costs in production	908	957	2,691	2,702
Operating lease expenses	171	170	513	513
Other production costs	84	88	282	294
Depreciation of assets used in production (Note 6,7)	18	21	54	62
Changes in inventories	0	0	-210	-340
Total	5,993	6,717	16,462	17,942

**NOTE 15 Distribution costs**

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Payroll costs	2,340	2,220	7,013	6,797
Operating lease expenses	1,709	1,648	5,090	4,875
Advertising expenses	299	330	906	968
Depreciation and amortisation (Note 6,7)	237	268	730	825
Fuel, heating and electricity costs	104	107	345	353
Municipal services and security expenses	91	84	278	249
Fees for card payments	52	56	156	167
Travel expenses	51	41	121	126
Information technology expenses	46	48	142	132
Consultation and management fees	25	36	101	91
Communication expenses	23	24	72	74
Other sales expenses ¹	191	191	550	548
Total	5,168	5,053	15,504	15,205

¹Other 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

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Payroll costs	295	276	889	913
Operating lease expenses	121	99	325	321
Information technology expenses	54	46	159	146
Bank fees	27	21	82	105
Depreciation and amortisation (Note 6,7)	7	14	23	54
Fuel, heating and electricity expenses	13	13	46	48
Management, juridical-, auditor's and other consulting fees	9	8	52	52
Other administrative expenses ¹	46	64	157	181
Total	572	541	1,733	1,820

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

NOTE 17 Other operating income and expenses

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Gain (loss) from sale, impairment of PPE	1	-15	1	-16
Other operating income	44	0	45	83
Foreign exchange gain (-loss)	-3	-26	-11	-83
Other operating expenses	-5	-2	-11	-7
Total	37	-43	24	-23

NOTE 18 Finance costs

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Interest cost	-144	-118	-404	-362
Total	-144	-118	-404	-362

**NOTE 19 Earnings per share**

		3 Q 2018	3 Q 2017	9M 2018	9M 2017
Weighted average number of shares (thousand)	pcs	40,795	40,795	40,795	40,795
Net loss from continuing operations		-814	-471	-1,669	-862
Basic earnings per share	EUR	-0.02	-0.01	-0.04	-0.02
Diluted earnings per share	EUR	-0.02	-0.01	-0.04	-0.02

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 programs. 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 0.24 euros (2017: 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 Board¹;
- ☒ 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.

¹Only 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

	3 Q 2018 Purchases	3 Q 2017 Purchases	9M 2018 Purchases	9M 2017 Purchases
Services	6	6	18	18
Total	6	6	18	18

In 2018 and 2017, AS Baltika bought mostly management services from the related parties.

Balances with related parties

	30 Sept 2018	31 Dec 2017
Other current loans and interests (Note 8, 9)	3,844	3,681
Payables to related parties total	3,844	3,681

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

All transactions in 2018 as well as in 2017 reporting periods and balances with related parties as at 30 September 2018 and 31 December 2017 were with entities under the control or significant influence of the members of the Supervisory Board.



Compensation for the members of the Management Board and Supervisory Board

	3 Q 2018	3 Q 2017	9M 2018	9M 2017
Salaries of the members of the Management Board	54	60	176	195
Remuneration of the members of the Supervisory Council	4	4	11	11
Total	58	64	187	206

As at 30 September 2018 and 31 December 2017 there were two Management Board Members and five Supervisory Board Members.

Changes in the Management Board in 2018

At the 21st of August 2018 meeting the Supervisory Board of AS Baltika extended the contract of the member of the Management Board Meelis Milder for another 3-year term.

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 October 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.

Convertible bonds (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. In 2018 share options will be issued among others 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,

Member of the Management Board of UAB D Investiciju Valdymas.

Baltika shares held on 30 September 2018: 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 30 September 2018: 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 2018: 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,

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,

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 Apdrošianas.

Baltika shares held on 30 September 2018: 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 2018: 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 2018: 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 30 September 2018: 0