



Baltika Group

AS BALTIKA

Consolidated interim report for the first quarter of 2018

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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 – 31 March 2018

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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 31 March 2018 the Group employed 1,020 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 31 Mar 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, FIRST QUARTER OF 2018

Baltika Group ended the first quarter with a net loss of 982 thousand euros. The result for the same period last year was a net loss of 590 thousand euros.

In the first quarter the Group's revenue decreased 4% compared to same period last year and was 10,343 thousand euros. Retail and wholesale decreased, but e-store continued to show strong growth increasing 35% compared to the first quarter of last year.

Retail revenue in the first quarter was 8,137 thousand euros, decreasing 5% compared to same period last year. Good sales in January were followed by February, where sales results were the worst ever, caused mainly by a significant drop in the number of visitors, especially in the Lithuanian market. In March, different sales campaigns brought visitors back to stores and the sales trend recovered.

Wholesale and franchise revenue decreased 8% compared to the first quarter last year and was 1,702 thousand euros. The main reasons for the decline in the first quarter's sales were decreased franchise sales in Russia, Ukraine and Belarus. While franchise sales decreased, the sales to wholesale partners increased in the first quarter by 7%. The biggest brand in wholesale and franchise was Monton with a 55% share of sales. At the end of the first quarter there were 31 franchise stores representing Baltika's brands, forming 25% of the total stores portfolio. The plan, to grow sales outside the Baltics, is under development, the results of which should realise in nearest years.

Baltika Group's e-store Andmorefashion.com revenue increased 35% in the first quarter compared to same period last year and was 470 thousand euros. Monton is still the most popular brand, comprising 35% of the e-store revenue. Sales were highest in Estonia with share of 57% from e-store total sales, followed by Latvia 18% and Lithuania 14%. Sales growth was supported by the expansion of Click&Collect network in Baltics and opening Click&Collect service in Finland in Iso Omena store, and also by improvements made to the e-store user-friendliness, especially in check-out process. In the first quarter, 9,946 orders from 30 counties were received.

The company's gross profit margin in the first quarter was 47.2%, which is 1.6 percentage points lower than the margin in the first quarter of last year. Gross profit margin was impacted by strongly decreased sales in February and sales campaigns in March. The gross profit for the quarter was 4,883 thousand euros, which is 367 thousand euros and 7% smaller in relation to last year's comparable result.

Due to the 6% increase in sales area the Group's distribution expense increased by 1%, while general expense decreased, resulting Group's distribution and general expense in total to remain at the last year's first quarter level. The distribution and general expense to revenue ratio in the first quarter was 55.3%, increasing by 2.1 percentage points due to decrease of sales volume.

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

-  In February, after the opening ceremony of the Pyeongchang Winter Olympics, Monton's collection created for Olympics received recognition from many of the world media publications and the outfit of the Estonian Olympic Delegation was named as one of the best in Pyeongchang.
-  On 22nd of March 2018 the Supervisory Board of AS Baltika decided to propose to the general Meeting of shareholders, to decrease the share capital. The share capital shall be decreased to cover prior period losses in a simplified way. Share capital will be reduced by 4,079,850 euros. Share capital is reduced by way of reduction of the nominal value of each share by 0.10 euros. The new amount of the capital of the Company after the reduction of share capital and reduction of nominal value of the shares will be 4,079,850 euros, which is divided into 40,794,850 shares with the nominal value of 0.10 euros.
-  On 22nd of March 2018 the Supervisory Board of AS Baltika decided to propose to the general meeting of shareholders to approve managers share option program and conditional increase of the share capital by issuing up to 1,000,000 additional shares. The share options can be exercised in the years 2021-2022.

-  In March, a jury, consisting of fashion and design experts, nominated Hanna Haring, the Head Designer of Monton, for the most prestigious fashion award in Estonia – the Golden Needle (*Kuld nõel*). The winner will be announced at the Golden Needle Gala in October in the framework of Tallinn Fashion Week.
-  In March, Monton debuted its colourful and lemur inspired #nofilter collection at Tallinn Fashion Week. With its collection, Monton encourages people to find inspiration in the unusual and bring forth their true self.
-  In the first quarter, Baltika closed two stores in its retail system in Estonia and opened one store in Latvia and one store in Lithuania. Two franchise stores were closed – one in Ukraine and one in Tenerife, Spain.

REVENUE

In the first quarter Baltika's revenue was 10,343 thousand euros, decreasing 4% compared to same period last year. In comparison by activity, e-commerce was the most successful, showing strong stable sales growth with 35%. The first quarter retail sales decreased 5% and wholesale and franchise revenue decreased 8%.

Revenue by activity

EUR thousand	1 Q 2018	1 Q 2017	+/-
Retail	8,137	8,524	-5%
Wholesale & Franchise	1,702	1,845	-8%
E-com sales	470	349	35%
Other	34	39	-13%
Total	10,343	10,757	-4%

Stores and sales area

As at 31 March 2018, Group had 126 stores, among them 31 franchise stores. In the first quarter, the number of stores decreased by two. In February, in Estonia Baltika closed the Bastion store on Viru street in Tallinn and the Outlet store in Eeden shopping centre in Tartu. In March, Bastion pop-up store was opened in Latvia in Riga Galleria shopping centre and the first Outlet store in Lithuania was opened in Vilnius. Two franchise stores were closed - Parque Mosaic in Tenerife, Spain and Mosaic Dreamtown in Kiev, Ukraine.

Stores by market

	31 March 2018	31 March 2017	Average area change*
Estonia	42	44	6%
Lithuania	30	29	0%
Latvia	22	22	1%
Finland	1	0	-
Ukraine ¹	15	16	-2%
Russia ¹	11	11	-12%
Belarus ¹	2	2	-13%
Spain ¹	2	3	-26%
Serbia ¹	1	1	275%
Total stores	126	128	
Total sales area, sqm	23,602	23,889	1%

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

¹Franchise shops are with a total sales area of 5,960 m².

Retail

Retail revenue in the first quarter was 8,137 thousand euros, decreasing 5% compared to same period last year. Good sales in January were followed by February with the weakest results ever, caused mainly

by significant drop in number of visitors, especially in Lithuanian market. Throughout March, different sales offers were made to the customers to restore sales activity, as a result of which sales figures recovered but the profitability margin decreased to some extent.

Retail sales by market

EUR thousand	1 Q 2018	1 Q 2017	+/-	Share
Estonia	3,980	4,073	-2%	49%
Lithuania	2,032	2,257	-10%	25%
Latvia	2,092	2,194	-5%	26%
Finland	33	0	0%	0%
Total	8,137	8,524	-5%	100%

In total for the quarter, the biggest loss in revenues was recorded in Lithuania, where sales decreased 10% and sales efficiency 9%.

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

	1 Q 2018	1 Q 2017	+/-
Estonia	165	178	-7%
Lithuania	123	135	-9%
Latvia	178	187	-5%
Finland	83	0	-
Total	154	166	-7%

Brands

There were no significant changes in brand's share of retail sales. The brand with the biggest share continues to be Monton, which revenues formed 42% of retail sales in the first quarter. Monton's first quarter sales were 3,448 thousand euros, decreasing 4%. Sales of the second largest brand Mosaic also decreased 4% compared to sales a year before.

The smallest brand by its sales' volume, Bastion, stood up to the first quarter's challenges decreasing in sales the least - by 1% and amounted to 411 thousand euros.

Retail revenue by brand

EUR thousand	1 Q 2018	1 Q 2017	+/-	Share
Monton	3,448	3,574	-4%	42%
Mosaic	2,478	2,587	-4%	31%
Baltman	892	983	-9%	11%
Ivo Nikkolo	908	963	-6%	11%
Bastion	411	417	-1%	5%
Total	8,137	8,524	-5%	100%

Sales in other channels

Wholesale and franchise revenue decreased 8% compared to the first quarter last year and was 1,702 thousand euros. The main reason for the decline in the first quarter's sales was the decreased franchise sales in Russia, Ukraine and Belarus. While franchise sales decreased, the sales to wholesale partners increased in the first quarter by 7%. The biggest brand in wholesale and franchise was Monton with 55% share of sales. At the end of the first quarter there were 31 franchise stores representing Baltika's brands, forming 25% of the total stores portfolio. Plan, to grow outside the Baltics, is under development, which should start showing results in nearest years.

Baltika Group's e-store Andmorefashion.com revenue increased 35% in the first quarter compared to same period last year and was 470 thousand euros. Monton was still the most popular brand, comprising of 35% from e-store revenue. Mosaic formed 28% of e-store sales, Ivo Nikkolo 20%, Bastion 12% and Baltman 4%. Sales were largest in Estonia with a share of 57% from e-store total sales, followed by Latvia 18% and Lithuania 14%. Compared to same period last year, all the Baltics showed strong

growth: Estonia +51%, Latvia +42% and Lithuania +35%. Sales growth was supported by the expansion of Click&Collect network in Baltics and the opening of Click&Collect service in Finland in Iso Omena store, and also by improvements made to the e-store user-friendliness, especially in check-out process. In the first quarter, 9,946 orders from 30 counties were received.

OPERATING EXPENSES AND NET PROFIT

The company's gross profit margin in the first quarter was 47.2% which is lower by 1.6 percentage points than the margin in the first quarter of last year. Gross profit margin was impacted mainly by strongly decreased sales in February and different discounts made to the new collection throughout March. The gross profit for the quarter was 4,883 thousand euros, which is 367 thousand euros and 7% smaller in relation to last year's comparable result.

Group's distribution expense in the first quarter was 5,127 thousand euros, increasing by 68 thousand euros compared to the same period last year. Distribution expense in the head office was lower than in the comparable period last year. At the same time due to increased sales area and cost pressure, distribution expense in retail markets has increased 4%. General and administrative expense decreased by 64 thousand euros in the first quarter and was 595 thousand euros.

The distribution and general expense ratio to revenue in the first quarter was 55.3%, worsening due to the decreased sales volume by 2.1 percentage points, compared to the first quarter last year.

Other operating net expense in the first quarter was 17 thousand euros and the operating loss was 856 thousand euros. In same period last year, the operating loss was 470 thousand euros.

The net financial expense in the fourth quarter was 126 thousand euros, which is 6 thousand euros more than in the same period last year.

The quarter resulted in a net loss for 982 thousand euros. Net loss of the comparable period was 590 thousand euros.

FINANCIAL POSITION

As at 31 March 2018, Baltika Group trade and other receivables amounted to 2,908 thousand euros, increasing by 853 thousand euros compared to the end of last year.

As at end of quarter, Group's inventories totalled 10,127 thousand euros, decreasing by 372 thousand euros compared to the end of last year. The decrease was both in goods and goods purchased for resale (by 184 thousand euros) and also fabrics and accessories (by 206 thousand euros). Compared to same seasonal business cycle as at 31 March last year, inventories decreased by 963 thousand euros, which is attributable to goods and goods purchased for resale.

As at 31 March 2018 the total borrowings amounted to 8,507 thousand euros, which together with the use of overdraft facility signifies an increase of 1,835 thousand euros compared to the end of last year (31 December 2017: 6,672 thousand euros). The increase in borrowings is attributable to the increase in the use of overdraft due to the seasonal business cycle.

In the first quarter, purchases of fixed assets were made in the amount of 78 thousand euros and depreciation was 279 thousand euros. Property, plant and equipment and intangible assets at residual value decreased by 202 thousand euros compared to last year-end and were 3,706 thousand euros.

The first quarter operating activities cash-flow was -1,792 thousand euros (I quarter 2017: -1,499 thousand euros). In the first quarter, investments were made in the amount of 78 thousand euros. Overdraft in use increased by 2,002 thousand euros, bank loan repayments were made in the amount of 203 thousand euros. Group's first quarter total cash flow was -120 thousand euros (I quarter 2017: 186 thousand euros).

As at 31 March 2018 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 8,022 thousand euros, which is 2,054 thousand euros more than at the end of last year. The net debt to equity ratio was 191% as at 31 March 2018 (31 December 2017: 115%). Compared to same seasonal business cycle last year, Group's net debt to equity ratio has remained at the same level (31 March 2017: 189%). Compared to end of 2017, net debt to equity ratio has deteriorated mainly due to increase

in borrowings (usage of overdraft) which is usual in the first quarter. Group's current ratio has improved over 12 months (as at 31 March 2017 and as at 31 March 2018) from 1.0 to 1.6.

PEOPLE

As at 31 March 2018 Baltika Group employed 1,020 people, which is 6 people less than at 31 December 2017 (1,026), thereof 483 (31.12.2017: 488) in the retail system, 366 (31.12.2017: 363) in manufacturing and 171 (31.12.2017: 175) at the head office and logistics centre. The 2018 first quarter's average number of staff in the Group was 1,022 (I quarter 2017: 1,051).

Baltika Group employees' remuneration expense in the first quarter amounted to 2,638 thousand euros (I quarter 2017: 2,568 thousand euros). The remuneration expense of the members of the Supervisory Board and Management Board totalled 62 thousand euros (I quarter 2017: 55 thousand euros).

From January 2018, Raivo Videvik is working as Baltika's Export Director, to grow the Group's export. Previously, Raivo Videvik has been responsible for managing the sales department and export area in Timbeco Woodhouse OÜ, being active in developing business and retail processes in Elektrum Eesti OÜ and also in Eesti Gaas AS

KEY FIGURES OF THE GROUP (I QUARTER 2018)

	3M and 31 March 2018	3M and 31 March 2017	3M and 31 March 2016	3M and 31 March 2015 ¹	3M and 31 March 2015	3M and 31 March 2014
Sales activity key figures						
Revenue (EUR thousand)	10,343	10,757	10,505	11,220	12,325	13,447
Retail sales (EUR thousand)	8,137	8,524	8,428	9,335	10,440	12,385
Share of retail sales in revenue	78.7%	79.2%	80.2%	83.2%	84.7%	92.1%
Share of exports in revenue	56.6%	57.7%	58.2%	58.9%	62.6%	63.1%
Number of stores in retail	95	95	94	91	102	123
Number of stores	126	128	130	117	128	125
Sales area (sqm) (end of period)	17,642	17,425	17,133	16,608	19,722	23,355
Number of employees (end of period)	1,022	1,047	1,103	1,123	1,216	1,334
Gross margin	47.2%	48.8%	50.6%	45.4%	44.5%	47.1%
EBITDA (EUR thousand)	-576	-152	-59	-389	-718	-2,065
Net profit (EUR thousand)	-982	-590	-493	-783	-1,136	-2,482
EBITDA margin	-5.6%	-1.4%	-0.6%	-3.5%	-5.8%	-15.4%
Operating margin	-8.3%	-4.4%	-3.7%	-5.9%	-8.3%	-17.8%
EBT margin	-9.5%	-5.5%	-4.7%	-7.0%	-9.2%	-18.4%
Net margin	-9.5%	-5.5%	-4.7%	-7.0%	-9.2%	-18.5%
Inventory turnover	2.01	1.99	1.84	1.96	2.02	2.14
Other ratios²						
Current ratio	1.6	1.0	1.2	1.8	1.8	1.5
Net gearing ratio	190.8%	189.0%	182.1%	98.8%	98.8%	64.0%
Return on equity	-21.8%	-12.9%	-8.2%	-12.8%	-12.8%	-23.1%
Return on assets	-5.3%	-3.1%	-2.2%	-4.8%	-4.8%	-10.2%

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*

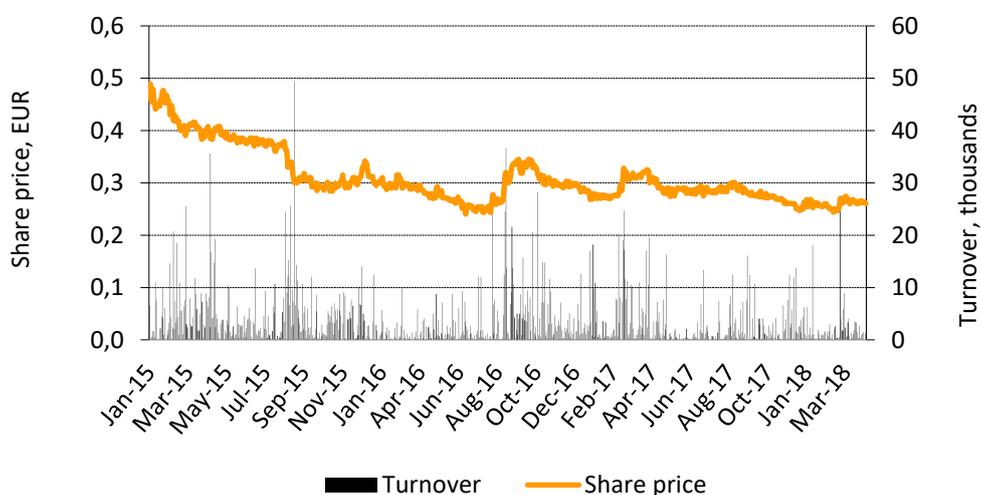
Net gearing ratio = (Interest-bearing liabilities-cash and cash equivalents)/Equity

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
19 April 2018



Maigi Pärnik-Pernik
Member of the Management Board
19 April 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 first quarter of 2018 as presented on pages 11-30.

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 April 2018



Maigi Pärnik-Pernik
Member of the Management Board
19 April 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Mar 2018	31 Dec 2017
ASSETS			
Current assets			
Cash and cash equivalents	3	485	704
Trade and other receivables	4	2,908	2,055
Inventories	5	10,127	10,499
Total current assets		13,520	13,258
Non-current assets			
Deferred income tax asset		189	189
Other non-current assets	4	503	487
Property, plant and equipment	6	2,200	2,395
Intangible assets	7	1,506	1,513
Total non-current assets		4,398	4,584
TOTAL ASSETS		17,918	17,842
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	8	3,190	1,309
Trade and other payables	9,10	5,207	5,984
Total current liabilities		8,397	7,293
Non-current liabilities			
Borrowings	8	5,317	5,363
Total non-current liabilities		5,317	5,363
TOTAL LIABILITIES		13,714	12,656
EQUITY			
Share capital at par value	11	8,159	8,159
Share premium		496	496
Reserves	11	1,345	1,345
Retained earnings		-4,814	-4,872
Net profit (loss) for the period		-982	58
TOTAL EQUITY		4,204	5,186
TOTAL LIABILITIES AND EQUITY		17,918	17,842

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

	Note	1Q 2018	1Q 2017
Revenue	12,13	10,343	10,757
Cost of goods sold	14	-5,460	-5,507
Gross profit		4,883	5,250
Distribution costs	15	-5,127	-5,059
Administrative and general expenses	16	-595	-659
Other operating income (-expense)	17	-17	-2
Operating profit (loss)		-856	-470
Finance costs	18	-126	-120
Profit (loss) before income tax		-982	-590
Income tax expense		0	0
Net profit (loss) for the period		-982	-590
Total comprehensive income (loss) for the period		-982	-590
Basic earnings per share from net loss for the period, EUR	19	-0,02	-0,01
Diluted earnings per share from net loss for the period, EUR	19	-0,02	-0,01

CONSOLIDATED CASH FLOW STATEMENT

	Note	1Q 2018	1Q 2017
Cash flows from operating activities			
Operating profit (loss)		-856	-470
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	14-16	279	316
Gain (loss) from sale, impairment of PPE, non-current assets, net		1	2
Other non-monetary adjustments		89	2
Changes in working capital:			
Change in trade and other receivables	4	-869	-468
Change in inventories	5	372	6
Change in trade and other payables	9	-777	-823
Interest paid and other financial expense		-31	-64
Net cash generated from operating activities		-1,792	-1,499
Cash flows from investing activities			
Acquisition of property, plant and equipment, intangibles	6,7	-78	-157
Proceeds from disposal of PPE		0	2
Net cash used in investing activities		-78	-155
Cash flows from financing activities			
Repayments of borrowings	8	-203	-257
Change in bank overdraft	8	2,001	2,146
Repayments of finance lease		-48	-49
Net cash generated from (used in) financing activities		1,750	1,840
Total cash flows		-120	186
Cash and cash equivalents at the beginning of the period	3	605	419
Cash and cash equivalents at the end of the period	3	485	605
Change in cash and cash equivalents		-120	186

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	-590	-590
Total comprehensive loss	0	0	0	-590	-590
Balance as at 31 Mar 2017	8,159	496	1,182	-5,462	4,375
Balance as at 31 Dec 2017	8,159	496	1,345	-4,814	5,186
Loss for the period	0	0	0	-982	-982
Total comprehensive loss	0	0	0	-982	-982
Balance as at 31 Mar 2018	8,159	496	1,345	-5,796	4,204

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 first quarter ended 31 March 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 and amounts owed in foreign currencies. The majority of raw materials used in production are acquired from the European Union and goods purchased for resale are acquired outside of the European Union. The main currencies used for purchases are EUR (euro) and USD (US dollar).

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

Average currencies	1 Q 2018	1 Q 2017
USD (US dollar)	15.44%	-0.23%

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

Balance-sheet date rates (31.03.2018; 31.12.2017)

USD (US dollar)	2.73%
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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 822 thousand euros at 31 March 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 March 2018 were subject to a fixed interest rate (31 December 2017: 4,445 thousand euros). 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 31 March 2018 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 4) amounted to 2,482 thousand euros (31 December 2017: 1,628 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 except the risk arising from financial institutions selected as approved counterparties.

Liquidity risk

Liquidity risk is the potential risk that the Group has limited or insufficient financial (cash) resources to meet the obligations arising from the Group's activities. Management monitors the sufficiency of cash and cash equivalents to settle 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 31 March 2018 was 1,362 thousand euros (31 December 2017: 3,363 thousand euros).

Financial liabilities by maturity at 31 March 2018

	Carrying amount	Undiscounted cash flows ¹		Total
		1-12 months	1-5 years	
Loans (Note 8) ²	3,885	3,209	773	3,982
Finance lease liabilities (Note 8)	127	59	76	135
Convertible bonds (Note 8)	4,495	0	4,994	4,994
Trade payables (Note 9)	2,461	2,461	0	2,461
Other financial liabilities	48	48	0	48
Total	11,016	5,777	5,843	11,620

Financial liabilities by maturity at 31 December 2017

	Carrying amount	Undiscounted cash flows ¹		Total
		1-12 months	1-5 years	
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 191%. In the end of 2017 the ratio was 115%. The deterioration of the ratio compared to the last quarter is influenced by the seasonality of the business characteristic to the first quarter and the resulting increased borrowings: compared to the first quarter last year, the ratio has remained stable (ratio at 31 Mar 2017: 189%). The Group also monitors other ratios e.g. net debt to EBITDA and net debt to share capital. Based on the above, the Group deems the capital structure to be in an acceptable range.

Net gearing ratio

	31 Mar 2018	31 Dec 2017
Interest carrying borrowings (Note 8)	8,507	6,672
Cash and bank (Note 3)	-485	-704
Net debt	8,022	5,968
Total equity	4,204	5,186
Net gearing ratio	191%	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 31 March 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

	31 Mar 2018	31 Dec 2017
Cash at hand	93	120
Cash at bank and overnight deposits	392	584
Total	485	704

All cash and cash equivalents are denominated in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables		31 Mar 2018	31 Dec 2017
Trade receivables, net		2,482	1,628
Other prepaid expenses		172	181
Tax prepayments and tax reclaims, thereof		220	198
Value added tax		220	198
Prepaid income tax		0	0
Other taxes		0	0
Other current receivables		34	48
Total		2,908	2,055
Long-term assets			
Non-current lease prepayments		284	276
Other long-term receivables		219	211
Total		503	487

All trade and other receivables are in euros.

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

31 Mar 2018	Baltic region	Eastern European region	Other regions	Total
Not due	404	796	192	1,392
Up to 1 month past due	6	293	14	313
1-3 months past due	0	326	25	351
3-6 months past due	2	293	17	312
Over 6 months past due	0	106	8	114
Total	412	1,814	256	2,482
31 Dec 2017	Baltic region	Eastern European region	Other regions	Total
Not due	184	935	134	1,253
Up to 1 month past due	16	33	22	71
1-3 months past due	0	221	7	228
3-6 months past due	0	75	0	75
Over 6 months past due	0	0	1	1
Total	200	1,264	164	1,628

NOTE 5 Inventories

	31 Mar 2018	31 Dec 2017
Fabrics and accessories	1,708	1,914
Work-in-progress	97	97
Finished goods and goods purchased for resale	7,780	8,174
Allowance for impairment of finished goods and goods purchased for resale	0	-210
Prepayments to suppliers	542	524
Total	10,127	10,499

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Total
31 December 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	76	8	88	172
Disposals	-2	0	-28	-30
Depreciation	-95	-30	-138	-263
31 March 2017				
Acquisition cost	2,911	4,726	4,847	12,484
Accumulated depreciation	-1,840	-4,340	-3,403	-9,583
Net book amount	1,071	386	1,444	2,901
31 December 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	34	9	16	59
Disposals	0	0	-1	-1
Depreciation	-94	-28	-131	-253
31 March 2018				
Acquisition cost	2,945	4,751	4,771	12,467
Accumulated depreciation	-2,144	-4,399	-3,724	-10,267
Net book amount	801	352	1,047	2,200

NOTE 7 Intangible assets

	Licenses, software and other	Trade- marks	Pre- payments	Goodwill	Total
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	0	0	11
Disposals	0	0	0	0	0
Amortisation	-43	-11	0	0	-54
31 March 2017					
Acquisition cost	2,103	1,243	0	509	3,855
Accumulated depreciation	-1,830	-392	0	0	-2,222
Net book amount	273	851	0	509	1,633
31 December 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	17	0	19
Disposals	0	0	0	0	0
Amortisation	-6	-20	0	0	-26
31 March 2018					
Acquisition cost	2,109	1,243	17	509	3,878
Accumulated depreciation	-1,927	-445	0	0	-2,372
Net book amount	182	798	17	509	1,506

NOTE 8 Borrowings

	31 Mar 2018	31 Dec 2017
Current borrowings		
Current portion of bank loans	497	575
Overdraft	2,638	637
Current portion of finance lease liabilities	55	97
Total	3,190	1,309
Non-current borrowings		
Non-current bank loans	750	875
Non-current finance lease liabilities	72	78
Convertible bonds, share options (Note 11)	4,495	4,410
Total	5,317	5,363
Total borrowings	8,507	6,672

During the reporting period, the Group made loan repayments in the amount of 203 thousand euros (2017: 257 thousand euros). Group's overdraft facilities with the banks were used in the amount of 2,638 thousand euros as at 31 March 2018 (31 December 2017: 637 thousand euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 126 thousand euros, including 55 thousand euros interest expense from the convertible bonds of related party (2017: 120 thousand euros, including 46 thousand euros interest expense from the loan of related party).

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

Changes in 2017

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

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

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

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

Interest carrying loans and bonds of the Group as at 31 March 2018

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR või EONIA +3,8%	4,012
K-Bonds (Note 11)	6.00%	4,445
Total		8,457

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

NOTE 9 Trade and other payables

	31 Mar 2018	31 Dec 2017
Current liabilities		
Trade payables	2,461	2,994
Tax liabilities, thereof	1,215	1,465
Personal income tax	140	189
Social security taxes and unemployment insurance premium	531	527
Value added tax	500	716
Other taxes	44	33
Payables to employees ¹	1,027	1,010
Other current payables	48	22
Other accrued expenses ²	36	36
Customer prepayments	89	126
Total	4,876	5,653

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

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

Trade payables and other accrues expenses in denominated currency

	31 Mar 2018	31 Dec 2017
EUR (euro)	1,884	1,954
USD (US dollar)	613	1,076
Total	2,497	3,030

NOTE 10 Provisions

	31 Mar 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

	31 Mar 2018	31 Dec 2017
Share capital	8,159	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182

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

Convertible bonds and share option program

	Issue date	Share subscription period	Number of convertible bonds 31 Mar 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).

 **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 31 March 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%
4. SEB S.A. clients	3,407,305	8.35%
5. Svenska Handelsbanken clients	940,000	2.30%
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	220,083	0.54%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	11,058,555	27.12%
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
1 Quarter and as at 31 Mar 2018			
Revenue (from external customers)	8,104	2,240	10,344
Segment profit (loss) ²	304	448	752
Incl. depreciation and amortisation	-225	-17	-242
Inventories of segments	4,501	0	4,501
1 Quarter and as at 31 Mar 2017			
Revenue (from external customers)	8,524	2,233	10,757
Segment profit (loss) ²	578	408	986
Incl. depreciation and amortisation	-231	-18	-249
Inventories of segments	5,167	0	5,167

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

	1 Q 2018	1 Q 2017
Total segment profit	752	986
Unallocated expenses ¹ :		
Costs of goods sold and distribution costs	-996	-795
Administrative and general expenses	-595	-659
Other operating income (expenses), net	-17	-2
Operating profit (loss)	-856	-470

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

	31 Mar 2018	31 Mar 2017	31 Dec 2016
Total inventories of segments	4,501	5,167	4,392
Inventories in Parent company and production company	5,626	5,923	6,704
Inventories on statement of financial position	10,127	11,090	11,096

NOTE 13 Revenue

	1 Q 2018	1 Q 2017
Sale of goods in retail channel	8,137	8,524
Sale of goods in wholesale and franchise channel	1,702	1,845
Sale of goods in e-commerce channel	470	349
Other sales	34	39
Total	10,343	10,757

Sales by geographical (client location) areas

	1 Q 2018	1 Q 2017
Estonia	4,487	4,553
Latvia	2,242	2,347
Lithuania	2,105	2,320
Russia	590	589
Ukraine	228	328
Austria	132	83
Germany	126	157
Finland	121	76
Cyprus	107	0
Spain	93	101
Serbia	50	110
Other countries	62	93
Total	10,343	10,757

NOTE 14 Cost of goods sold

	1 Q 2018	1 Q 2017
Materials and supplies	4,492	4,672
Payroll costs in production	884	871
Operating lease expenses	171	171
Other production costs	105	113
Depreciation of assets used in production (Note 6,7)	18	20
Changes in inventories	-210	-340
Total	5,460	5,507

NOTE 15 Distribution costs

	1 Q 2018	1 Q 2017
Payroll costs	2,299	2,300
Operating lease expenses	1,685	1,593
Advertising expenses	298	330
Depreciation and amortisation (Note 6,7)	253	276
Fuel, heating and electricity costs	134	132
Municipal services and security expenses	96	82
Fees for card payments	47	51
Travel expenses	40	44
Information technology expenses	42	38
Consultation and management fees	44	25
Communication expenses	25	26
Other sales expenses ¹	164	162
Total	5,127	5,059

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

	1 Q 2018	1 Q 2017
Payroll costs	309	330
Operating lease expenses	102	111
Information technology expenses	48	50
Bank fees	26	48
Depreciation and amortisation (Note 6,7)	8	20
Fuel, heating and electricity expenses	20	21
Management, juridical-, auditor's and other consulting fees	26	26
Other administrative expenses ¹	56	53
Total	595	659

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

NOTE 17 Other operating income and expenses

	1 Q 2018	1 Q 2017
Gain (loss) from sale, impairment of PPE	-1	-2
Other operating income	1	26
Foreign exchange gain (-loss)	-15	-24
Other operating expenses	-2	-2
Total	-17	-2

NOTE 18 Finance costs

	1 Q 2018	1 Q 2017
Interest cost	-126	-120
Total	-126	-120

NOTE 19 Earnings per share

Basic earnings per share		1 Q 2018	1 Q 2017
Weighted average number of shares (thousand)	pcs	40,795	40,795
Net loss from continuing operations		-982	-590
Basic earnings per share	EUR	-0.02	-0.01
Diluted earnings per share	EUR	-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 0.26 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

Purchases	1 Q 2018	1 Q 2017
Services	6	6
Total	6	6

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

Balances with related parties

	31 Mar 2018	31 Dec 2017
Other current loans and interests (Note 8, 9)	3,739	3,681
Payables to related parties total	3,739	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 31 March 2018 and 31 December 2017 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

	1 Q 2018	1 Q 2017
Salaries of the members of the Management Board	58	51
Remuneration of the members of the Supervisory Board	4	4
Total	62	55

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

Changes in the Management Board in 2017

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

On 11 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.

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 31 March 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 31 March 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 31 March 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 31 March 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 31 March 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 31 March 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 31 March 2018: 0