Baltika Group
FASHION SINCE 1928

ANDMORE
FASHIONSTORE

monton
mosaic
Ivo Nikkolo
BASTION
BALTMAN

AS BALTIKA ANNUAL REPORT 2017

AS BALTIKA

2017 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
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E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2017 - 31.12.2017

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BALTIKA GROUP IN BRIEF

Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo. Baltika employs a vertically integrated business model, which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics, wholesale and retail. As at 31 December 2017 Group had 128 stores, including 33 franchise partners´ stores in Spain, Ukraine, Belarus, Russia and Serbia. The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange that is part of the exchange group NASDAQ.

MISSION AND KEY STRATEGIC STRENGTHS

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

- Learning organisation with high targets
- Flexible, vertically integrated business model
- Centralised management with strong retail organisations in the markets
- Brand portfolio covering a broad customer base

KEY FIGURES AND RATIOS

	2017	2016	2015[1]	2014	2013
Comprehensive income data, in millions					
Revenue	47.5	47.0	48.8	57.1	58.3
Gross profit	23.7	23.5	23.1	28.9	31.2
EBITDA	1.9	2.0	0.9	0.6	2.3
Operating profit	0.6	0.7	-0.3	-0.7	0.7
Profit before income tax	0.1	0.2	-0.8	-1.1	0.3
Net profit	0.1	0.2	-0.8	-1.3	0.1
Other data					
Number of stores in retail	95	95	95	105	124
Number of stores total	128	128	123	128	126
Retail sales area in the end of period, sqm	17,741	17,161	17,046	20,232	23,852
Number of employees (31 Dec)	1,026	1,049	1,095	1,228	1,345
Sales activity key figures					
Revenue growth	1.0%	-4.0%	2.0%	-2.1%	3.6%
Retail sales growth	-0.5%	-7.1%	1.3%	-5.8%	3.6%
Share of retail sales in revenue	83.2%	84.4%	87.6%	90.0%	93.6%
Share of exports in revenue	55.4%	56.4%	56.6%	65.2%	66.5%
Gross margin	49.9%	50.0%	47.3%	50.8%	53.5%
Operating margin	1.3%	1.5%	-0.6%	-1.2%	1.1%
EBT margin	0.2%	0.4%	-1.6%	-2.0%	0.5%
Net margin	0.1%	0.4%	-1.7%	-2.2%	0.2%
Inventory turnover	2.15	2.17	2.16	2.09	2.09
Financial position data, in millions[2]					
Total assets	17.8	18.9	18.1	23.1	24.3
Interest-carrying liabilities	6.7	7.0	6.3	7.3	5.3
Shareholders' equity	5.2	5.0	4.8	8.7	11.5
Current ratio	1.8	1.1	1.3	1.6	1.5
Debt to equity ratio	128.7%	141.6%	131.5%	83.0%	46.1%
Net gearing ratio	115.1%	133.2%	123.2%	74.9%	38.7%
ROE	1.3%	3.8%	-92.8%	-13.4%	1.0%
ROA	0.3%	0.9%	-28.1%	-5.4%	0.4%

	2017	2016	2015[1]	2014	2013
Key share data, EUR[3]					
Number of shares outstanding (31 Dec)	40,794,850	40,794,850	40,794,850	40,794,850	40,794,850
Weighted average number of shares	40,794,850	40,794,850	40,794,850	40,794,850	38,644,165
Share price (31 Dec)	0.25	0.28	0.34	0.46	0.55
Market capitalisation, in millions (31 Dec)	10.4	11.5	14.0	18.8	22.3
Earnings per share (EPS)	0.00	0.00	-0.16	-0.03	0.00
Diluted earnings per share (DPS)	0.00	0.00	-0.16	-0.03	0.00
Change in EPS, %	0%	103%	433%	-1278%	-87%
P/E	176.56	65.21	-2.19	-14.9	208.2
Book value per share	0.13	0.12	0.12	0.21	0.28
P/B	2.0	2.3	2.9	2.2	1.9
Dividend per preference share	0	0	0	0	0
Interest rate	0%	0%	0%	0%	0%
Preference share dividend payout ratio	0%	0%	0%	0%	0%
Dividend per share	0*	0*	0	0	0
Dividend yield	0%*	0%*	0%	0%	0%
Dividend pay-out ratio	0%*	0%*	0%	0%	0%

*Proposal to the general meeting.

[1]In connection with Baltika's exit from Russian retail business in 2015, other data and sales activity key figures for 2015 are presenting only results of continued operations.
[2]Financial position data and key share data includes impact of continued and discontinued operations.
[3]Any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Definitions of key figures and ratios

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

*Based on 12-month average

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 5 to 53 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Meelis Milder
Chairman of the Management Board
22 March 2018

Maigi Pärnik-Pernik
Member of the Management Board
22 March 2018

MANAGEMENT REPORT

CHAIRMAN'S STATEMENT

Year 2017 ended for Baltika Group with a positive result. Retail channel that showed in first eight months very weak results demonstrated in the last four months strong sales; e-store and wholesale and franchise grew profitably throughout the year. Operating and administrating costs were optimal and stock volume and attributes were better than last year.

Baltika Group objectives for 2017 were:

- Successful company: increase profitability and improving gross profit and operating expense ratio;
- Content customer: increase in all sales channels through offering better customer experience;
- Motivated employee: to increase profitability it is important to maintain employees' motivation and dedication.

Profitability did not increase compared to last year. In spite of the increase of gross profit by 1%, the operating expense ratio to gross profit was higher than in prior year. Although the purchase price was at the best level of recent years, profit did not increase due to high discount rate, which was the result of complicated trading situation on Baltic market from April to August.

The highest growth from channels came from e-store (38%). Baltika Group increased sales through wholesale and franchise partners by 5%. Retail sales was lower compared to year 2016 by 1%. Baltika Group clients are loyal – 73% of retail and 76% of e-store clients are members of Andmore bonus program.

The success of business client direction is verified by increase in number of selling points in foreign markets, active sales work has also started through B2B online channels. New target countries are Serbia, where Baltika Group is represented through franchise partner and Finland, where new pop-up store was opened in December 2017. Monton, Ivo-Nikkolo and Baltman collections were presented in Toronto on an Estonian fashion and design introducing event series Northern Spirit EstoStyle with the objective to find potential partners in North-America.

Monton´s Pyeongchang Olympic collection "1918" and Monton's birthday collection "Freedom" received much positive feedback. The later was recognized with Digital Marketing Award 2017 in branded content category.

Project of renewal Baltika Groups's values gained prominence from activities targeted to employees, most of Baltika Group's employees were involved in it. Significantly improved the communication to employees. More specific content was given to Baltika as employer value proposition. A clip "Baltika story" was completed by the end of the year that describes the effort of employees in the formation of Baltika Group and carrying its values.

Although year 2017 last month's sales results were on good level, then the year in total reflected well many challenges in both – domestic and international fashion business. Baltika Group's business model has ensured stable sales volume and operating expenses, but the expected sales and profit increase has not been achieved. This is the main reason why in autumn 2017 Baltika Group started the process for a new strategy that carries the name Strategy 2022. The objective of the strategy is to work out action plan that is oriented on international sales growth for the next five years. The focus for Baltika Group is managing and developing fashion brands. New plan of action takes into account the changes in fashion industry and customer behaviour, also takes into consideration Baltika Group's own capabilities and strengths.

The core of change of business model was agreed by the start of year 2018, further plans of action and development projects will be carried out within the year. Baltika Group's expectation for the year 2022 is to remarkably increase revenue. The growth should mainly come from online and franchise and wholesale sales. For this, Baltika Group will develop a new multibrand concept, that converges online and offline channels and renews

customer loyalty program for retail clients. More flexible new cooperation model will be created for business clients.

The keywords for Strategy 2022 are better understanding of the client, strengthening brand value offer and simplifying current business model. With clearly defined focuses and motivated team Baltika Group plans to reach the expected international growth.

2018 is the 90th year of operations for Baltika. I wish all the investors, partners and employees of Baltika Group best of luck on the anniversary! Current Baltika Group's team works to have even more to be proud of in five years.

Meelis Milder
Chairman of the Management Board

FINANCIAL RESULTS OF 2017

Baltika Group's net profit for year 2017 was 0.1 million euros. Last year's comparative result was profit in amount of 0.2 million euros.

Baltika's revenue in 2017 was 47.5 million euros, increasing 1% compared to last year. Revenue growth was largest with 38% in e-store that reached close to 1.5 million euros turnover.

Wholesale and franchise sales increased by 5% that is 0.3 million euros in year 2017 and revenue amounted to 6.3 million euros. Success in sales achieved through entering new franchise market Serbia and increased wholesale sales to department store chain Peek & Cloppenburg. In line with the agreement signed in October 2016, new franchise partners Monton Andmore store was opened in March 2017 in Novi Sad, Serbia. Monton, Mosaic and Bastion collections are represented in Serbian Monton Andmore store. As at the end of the year there were 33 franchise stores, forming 26% of total stores portfolio.

Retail sales were 39.5 million euros in year 2017 that is 1% less than in prior year. Hereby needs to be taken into account that Baltika's own sales through e-store have increased in similar amount as retail revenue has decreased. Baltika´s largest market Estonia showed good result in 2017, where sales increased 2% this year.

Baltika's gross profit margin in 2017 of 49.9% was similar to last year level (2016: 50.0%). Gross profit increased in line with sales increase by 1% and was 23.7 million euros. Operating expenses increased in a year by 0.3 million euros. Head-office distribution expense decreased by 0.1 million euros and administrative expense decreased also by 0.1 million euros, but retail market expenses have increased by 0.4 million euros due to more average retail area and cost pressure. Other operating expense has also increased by 0.1 million euros. This results in operating profit of 0.6 million euros in year 2017 (2016: 0.7 million euros).

Group´s financial position strengthened in year 2017: issuance of K-bonds brought additional funds from investors, which together with additional money from operating cash flow were used to reduce borrowings from banks. In addition to regular payment schedule based reduction of bank loan in amount of 0.6 million euros, usage of overdraft facility decreased by 1.0 million euros in a year. Baltika's liquidity ratio has improved over the year from 1.1 to 1.8.

Baltika Group starts with new strategy in year 2018 that means working out final specific steps and solutions and important development projects to create basis for future growth.

HIGHLIGHTS OF THE PERIOD UNTIL THE RELEASE OF ANNUAL REPORT

- On 8th of March 2017 first Baltika's fashion brands representing store in Serbia was opened in Novi Sad in cooperation with Serbian franchise partner Victoria Elegans d.o.o.
- The Annual General Meeting of AS Baltika, held on 8th of May 2017, decided to approve the Annual report for 2016 and profit allocation to retained earnings. Meeting appointed the auditors for auditing the financial years 2017-2019 to be AS PricewaterhouseCoopers. Annual General Meeting decided to conditionally increase the share capital of the Company and to issue convertible bonds according to the Terms and Conditions of K-Bonds presented by Supervisory Board.
- With a decision of AS Baltika Supervisory Board on 29th of May 2017 Ingrid Kormik was appointed as 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. Ingrid Kormik is a one of the most valued purchasing and supply chain experts in Estonia and she had occupied different positions in AS Baltika since 2001.

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

- In August 2017, AS Baltika redeemed 600 J-series bonds in total issue price of 3,000,000 euros. The three-year J-series bonds were issued on 28th of July 2014, bearing an annual interest of 6.5%, issuance price per bond was 5,000 euros. Each J-series bondholder had an opportunity to convert the bonds into the K-series convertible bonds, which was used: out of 600 J-series bonds 593 bonds with accrued interest were exchanged for K-series bonds. For the outstanding 7 J-bonds the company returned to investors the amounts paid for the bonds with accrued interests.

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

- In September 2017 the biggest brand in Baltika's portfolio Monton celebrated its 15th birthday. For the occasion, Monton designers created a special collection named "Freedom" as a tribute to all free spirits, to freedom of creation and expression and to free Estonia. Campaign "Swallow", created with the aim to communicate Monton's anniversary and special collection, won the prize of Digital Deed 2017 in branded content category.

- To Celebrate Estonia's 100th and Canada's 150th birthday, a premiere under the concept called Northern Spirit EstoStyle was held in Toronto in Canada in September 2017. During this event, eight internationally most recognized Estonian fashion and design brands were showcased, including three Baltika's brands: Monton, Baltman and Ivo Nikkolo.

- On 11th of October 2017, Supervisory Board decided to recall the Head of Purchasing and Supply chain Ingrid Uibukant (previously Kormik) from the Management Board starting from 18th of December 2017. After the resignation of Head of Purchasing and Supply Chain Ingrid Kormik in December 2017, Management Member Maigi Pärnik-Pernik is responsible of entire division of Purchasing and Supply Chain.

- In November 2017, Monton and the Estonian Olympic Committee revealed the new Olympic collection dedicated to Estonia's 100th birthday. Monton's collection for the Pyeongchang Winter Olympics is called 1918 after the year of birth of Estonian Republic. Many of the world media publications have named the outfit of Estonian Olympic Delegation as one of the best in Pyeongchang.

- In December 2017, Baltika started the new pilot project to support the e-store growth in Finland, within this project new pop-up store was opened in Iso Omena Shoppingcenter in Espoo. Initial duration for the Finnish project is planned for six months with the purpose to support the integration of e-store Andmorefashion.com and physical store to offer unified and better shopping experience to the customer.

- In relation to unite marketing and communication areas in Baltika Group and bring their management under one unit, starting from December Mari-Liis Küppar works in Baltika as new Marketing and Communication Manager. She has previous working experience in Swedbank AS, Saku Õlletehase AS and AS Värska Vesi. The role of the marketing and communication department is to represent stronger customer view in the organisation to bring Group's business strategy into life. Thereby, there is intention to make the brands' marketing communication stronger in different channels.

- Starting from January 2018, Raivo Videvik is working in Baltika as new Export Director, for the purpose to put effort into the growth of export and to accelerate the increase of sales in franchise and wholesale. Previously, Raivo Videvik has been responsible for managing sales department and export area in Timbeco Woodhouse OÜ, being active in developing business and retail processes in Elektrum Eesti OÜ and also in Eesti Gaas AS.

- As at 31st of December 2017 there were 95 stores in Baltika's retail store portfolio.

MEETING THE OBJECTIVES OF 2017

- Successful company: increase profitability and improving gross profit and operating expense ratio;

  Baltika Group ended the year with profit due to strong fourth quarter results, but it remained lower than the profit made in 2016. Therefore, Baltika did not meet the objective to increase profitability.

  Baltika has worked on keeping operating costs under control, and considering the increase in average sales area and cost pressure in Baltic countries the increase only by 1% is a good result. As the gross profit increased 1% over the year, then in summary gross profit and operating expense ratio have worsened by 0.4 percentage points.

  The named objective was not fully met by Baltika in 2017.

- Content customer: increase in all sales channels through offering better customer experience;

  E-store put emphasis on improving customer experience into improving speed of e-store web and creation of more simple and clear structure of homepage. In addition, Click&Collect service was expanded to Baltic countries. E-store increased in total the sales by 38% over the year.

  Sales revenue was also increased in wholesale and franchise channel. Wholesale and franchise sales increased 5% and were in 2017 6.3 million euros. Baltika's expectations for the growth of wholesale and franchise sales in 2017 were higher than the achieved result.

  The named objective was partially met by Baltika in 2017.

- Motivated employee: to increase profitability it is important to maintain employees' motivation and dedication.

  Main activities to hold and improve employee motivation and dedication in year 2017 were the following:
  - ✓ Phrasing company's values and communicating them to all employees in a new and thrilling way;
  - ✓ Creating company value proposition for its own employees (among other thing additional holiday was added for tenure of employment and acknowledging work anniversaries was reformed);
  - ✓ Organizing satisfaction survey and analysis of the result;
  - ✓ Training and development activities (watching together Nordic Business Forum Live, Shop Day for employees working in office and Office Day for employees working in shops etc);
  - ✓ Health week twice a year.

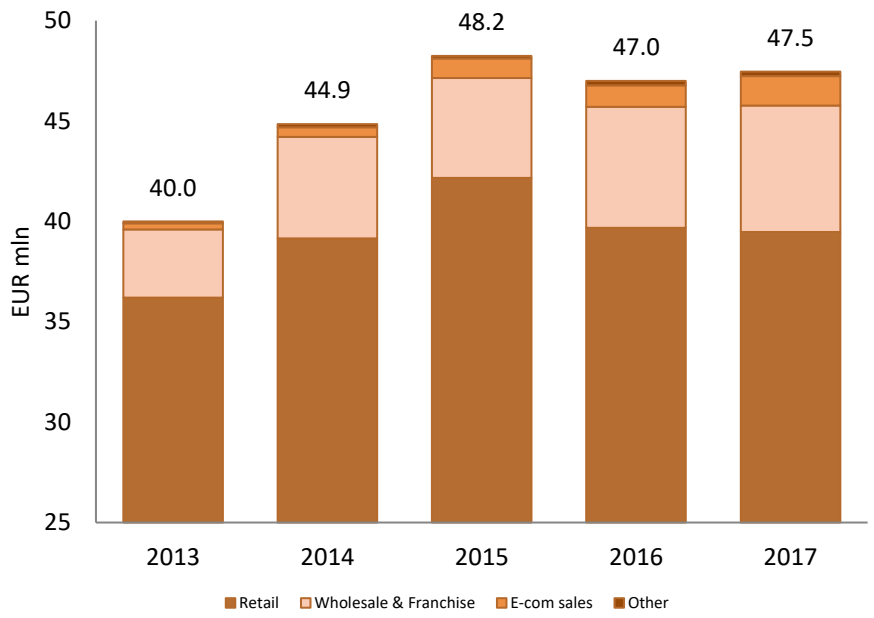
  Baltika met the named objective to engage in keeping and improving employee motivation and dedication in year 2017.

REVENUE

Revenue by activity

EUR million	2017	2016	+/-
Retail	39.5	39.7	*-1%*
Wholesale & Franchise	6.3	6.0	*5%*
E-com sales	1.5	1.1	*38%*
Other	0.2	0.2	*-4%*
Total	**47.5**	**47.0**	***1%***

Revenue 2013-2017



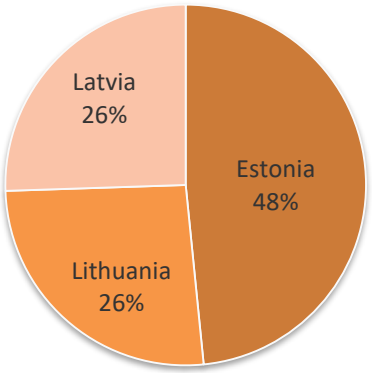
RETAIL

In 2017 retail revenue was 39.5 million euros i.e. 1% less than last year's comparative result.

Retail sales by markets

EUR million	2017	2016	+/-
Estonia	19.1	18.6	*2%*
Lithuania	10.3	10.9	*-5%*
Latvia	10.1	10.2	*-1%*
Total	**39.5**	**39.7**	***-1%***

Breakdown of retail sales by market – 2017



Baltika Group's biggest retail market continues to be Estonia. In a year the share of Estonian market has increased by 1.4 percentage points, from 47.0% to 48.4%.

The market who achieved sales growth in year 2017 was Estonia, which revenue grew by 2%. Latvia managed to keep with the help of larger operating area sales above 10 million euros. The weakest result was shown by Lithuanian market in year 2017, which retail sales decreased by 5%.

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

EUR/m2	**2017**	**2016**	**+/-**
Estonia	201	205	-2%
Lithuania	156	163	-4%
Latvia	214	223	-4%
Finland	105	0	-
Total	**190**	**195**	**-3%**

AndMore bonus programme for loyal customers

The loyal customer programme AndMore, which covers all the stores and the e-shop, has been in use since 2014. With the AndMore bonus programme, every purchase grants the customer a bonus, which they can begin to use from their next purchase. Customers can earn 5%, 7% or 10% bonuses, depending on their customer level determined by the annual purchase volume. Bonuses are personal and valid for 6 month from last purchase. In addition, customers can use a one-time purchase bonus of 5, 7 or 10 euros on their birthday.

All brands and e-store wide bonus programme allows to get a good overview of our loyal customers behaviour and their preferences. This in turn enables to send them personalised messages. Customers can also monitor their personal bonus account balance in the e-shop at Andmorefashion.com.

As of 2017, 500,000 people had joined the bonus programme, including 53,000 people who joined in 2017. The purchase volume of loyal customers is around 74% of Baltika's total retail sale in the Baltic region and 24% respectively is purchase volume of anonymous customers. 55% of loyal customers are in the age group of 30-50 and 80% of loyal customers are female.

STORES AND SALES AREA

At the end of 2017 Baltika Group had 128 stores in nine countries with total sales area of 24,042 m^2, among which 33 franchise stores with a total sales area of 6,301 m^2.

Retail network average operating area increased in Estonia and Latvia and in total the Baltic average operating area increased by 2% in a year. In Estonia in 2017 one Monton pop-up store was closed in Solaris shopping centre and one Monton store was opened in Viru Centre. The multibrand stores saw an addition in Estonia to Nautica centre, while a Bastion store was closed in Pärnu. One Bastion store was closed in Riga Origo centre in Latvia. Baltika Group restarted its activity on Finnish retail market. As a pilot project to support the e-store growth in Finland, pop-up store was opened in Iso Omena shopping centre in Espoo. Initial duration for the Finnish project is planned for six months with the purpose to support the integration of e-store Andmorefashion.com and physical store to offer unified and better shopping experience to the customer.

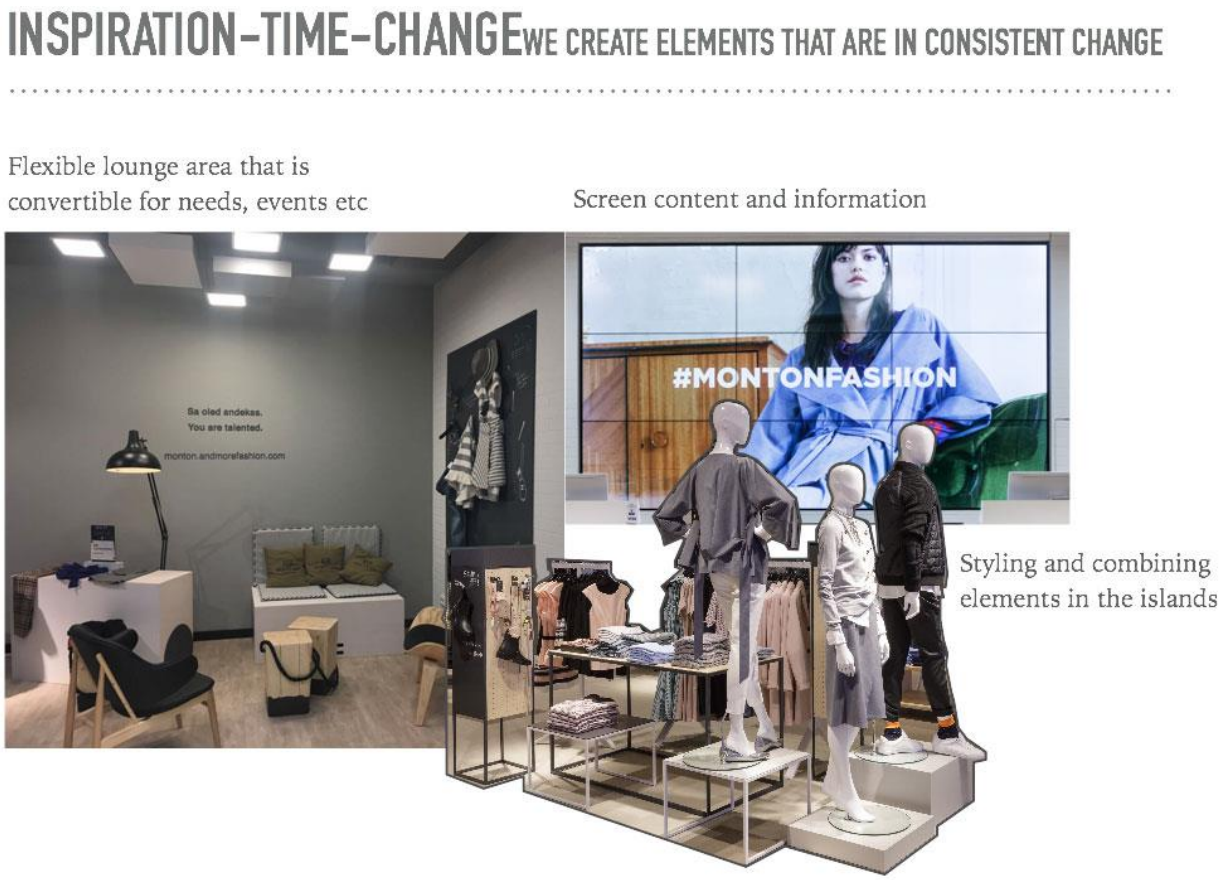


Photo: Monton Retail Concept Principles #1, in example of Viru Shopping Centre Monton store

Stores by markets

	31 December 2017	31 December 2016	+/-
Estonia	44	44	0
Lithuania	29	29	0
Latvia	21	22	-1
Finland	1	0	1
Ukraine[1]	16	16	0
Russia[1]	11	12	-1
Belarus[1]	2	2	0
Spain[1]	3	3	0
Serbia[1]	1	0	1
Total stores	**128**	**128**	**0**
Total sales area, sqm	**24,042**	**23,211**	**831**

[1]Franchise stores have a total sales area of 6,301m^2.

A new store was added to franchise store portfolio in March when a Monton Andmore store was opened on the new franchise market Serbia in Novi Sad. In Russia, franchise partner closed one Baltman store in Moscow. At the end of the year there were 33 franchise stores, forming 26% of total stores portfolio.

Photo: Opening Monton AndMore store in Novi Sad Serbia

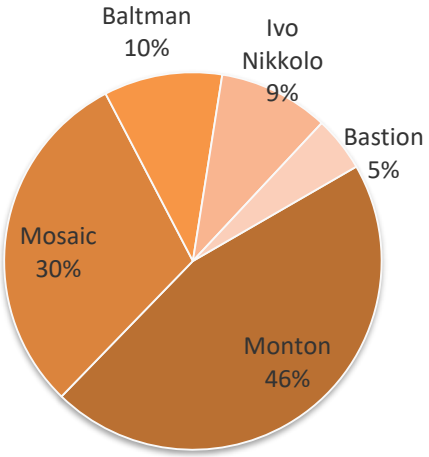
Baltika's retail network by market and brand, 31 December 2017

	Estonia	Lithuania	Latvia	Finland	Total	+/- vs 2016
Monton	9	8	6	0	23	0
Mixed brands	5	3	3	1	12	2
Mosaic	10	9	4	0	23	-1
Baltman	5	6	3	0	14	0
Ivo Nikkolo	6	3	4	0	13	0
Bastion	6	0	1	0	7	-2
Outlet	3	0	0	0	3	1
Total	**44**	**29**	**21**	**1**	**95**	**0**
m2	8,221	5,493	3,902	125	17,741	580

OVERVIEW OF BRANDS

In 2017 Monton brand with 46% and Mosaic brand with 30% had the largest shares of Baltika Group's total revenue. Monton share of revenue increased by 3 percentage points due to success of Monton products sales to wholesale partners. In retail, Bastion has increased its sales revenue by 10%, but still remains the smallest in Baltika´s brand portfolio. E-store revenue is divided more equally among brands. Mosaic brand had the largest growth through e-store in 2017.

Breakdown of retail sales by brand – 2017



Monton

In 2017, Monton's total sales revenue amounted to 21.6 million euros, having grown 3.5% i.e. 0.7 million in a year.

Baltika's largest and the trendiest brand, Monton, is represented in stores in its home market in the Baltic region: Estonia, Latvia and Lithuania, and, via a network of franchise partners, in Russia, Ukraine, Belarus and Spain. In 2017, a new Monton concept store was opened in Tallinn Viru Centre, and Serbian market was entered in March when Monton Andmore store was opened in Novi Sad.

Like year before, also in 2017 Monton strengthened its presence in one of the most well-known and oldest department stores chain in Europe, Peek & Cloppenburg. While the 2017 spring-summer collection was sold in 25 Peek & Cloppenburg stores in Germany and Eastern-Europe, since July the number of stores selling the women's

collection has risen to 39 – in Germany, Austria, Czech Republic, Bulgaria, Poland, Croatia, Slovenia, The Netherlands, Hungary and Romania. Monton's collections also continue to be represented at two Finnish department stores Aleksi 13 and Halonen. International success has been ensured by the unique design signature, stable and reliable quality and good fit of the collections. The share of wholesale and franchise sales made up 18% of Monton's 2017 sales revenue, i.e. 4.0 million euros, having increased by 0.5 million euros in a year.

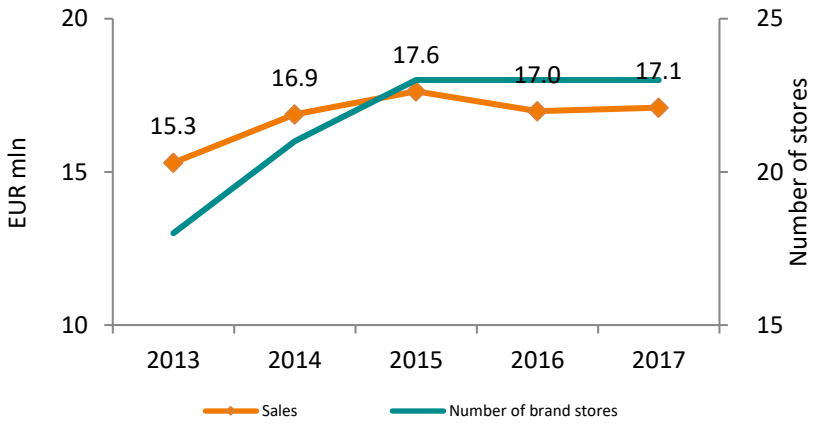
The majority of Monton's sales revenue – 79% i.e. 17.1 million euros – came from retail sales, which increased by 1% in a year. Increase in retail sales has been helped by continuously strengthening shop concepts and growing interest of clients to unique and modern collection. The biggest market in retail is Estonia.

In March 2017 in Tallinn Fashion Week, Monton participated successfully with collection "Talented", which combined regular collection and additional items for the show. Collection received much positive media coverage.

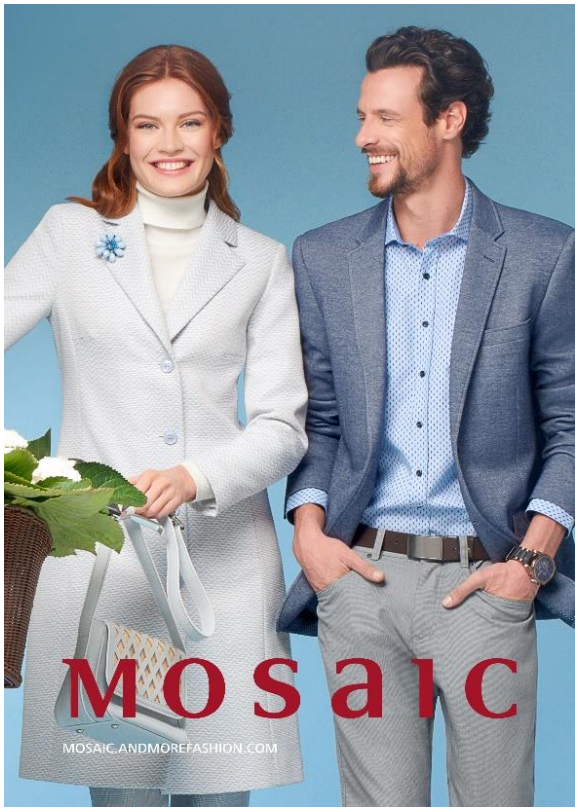
Monton celebrated its 15th birthday in September 2017. Monton collection team created for the birthday special collection "Freedom" as a tribute to all free spirits, to freedom of creation and to free Estonia. Campaign "Swallow", created with the aim to communicate Monton's anniversary and special collection, won the prize of Digital Deed 2017 in branded content category.

In November 2017 Monton and the Estonian Olympic Committee revealed the new Olympic collection dedicated to Estonia's 100th birthday. Monton's collection for the PyeongChang Winter Olympics is called "1918" after the year of birth of Estonian Republic. Many of the world media publications have named the outfit of Estonian Olympic Delegation as one of the best in PyeongChang. Monton has been an official supporter of the Olympic athletes for 13 years and Estonian athletes have therefore worn collections designed by Monton in Athens, Turin, Beijing, Vancouver, London, Sochi and Rio de Janeiro.

Monton retail sales



Mosaic

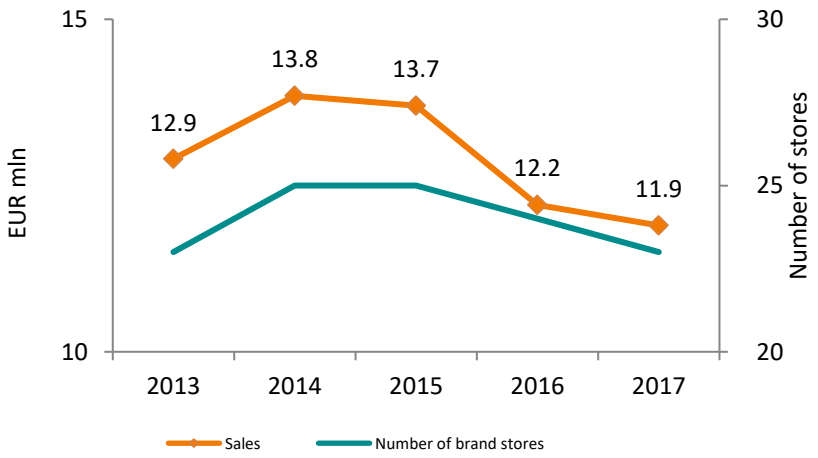


In 2017 Mosaic's sales revenue amounted to 14.2 million euros, having decreased by 1% i.e. 0.1 million euros in a year. In e-store the annual sales growth of Mosaic was 45%.

In Baltika Group's retail network, the Mosaic collection is represented in 23 concept stores in the Baltic countries. In addition, Mosaic is represented as a franchise store in Ukraine and Russia, Serbia and in various wholesale channels: Stockmann department stores in Russia, Halonen and Aleksi 13 department stores in Finland. Mosaic expanded in 2017 into Russian department store chain Lady&Gentleman CITY, being represented in 5 department stores. Estonia is still the biggest market for the Mosaic brand.

Mosaic's role in the Baltika Group's brand portfolio is to offer classic and practical everyday fashion for women and men. Carefully chosen tones, fabrics and details are in line with the latest fashion trends, while the timelessly elegant cuts make the clothes easy to combine with both the existing wardrobe and the collections of future seasons. The precise and representative look is complemented to perfection by the good fit of the clothes. For this reason, Mosaic continues to invest in a large selection of sizes and a good fit, so that every customer can find beautiful, elegant and well-fitting clothes regardless of body type and height.

Mosaic retail sales



Baltman

In 2017, Baltman's total sales revenue amounted to 4.8 million euros, having decreased by 3% i.e. 0.1 million euros in a year. The drop came mainly from retail. At the same time, sales in the e-shop grew 34% over the year.

Estonia continues to be Baltman's biggest retail market. There are 14 Baltman concept stores in Baltika Group's retail network, located in Estonia, Latvia and Lithuania. In addition, Baltman is sold in the men's department 'Meestemaailm' at Tallinna Kaubamaja.

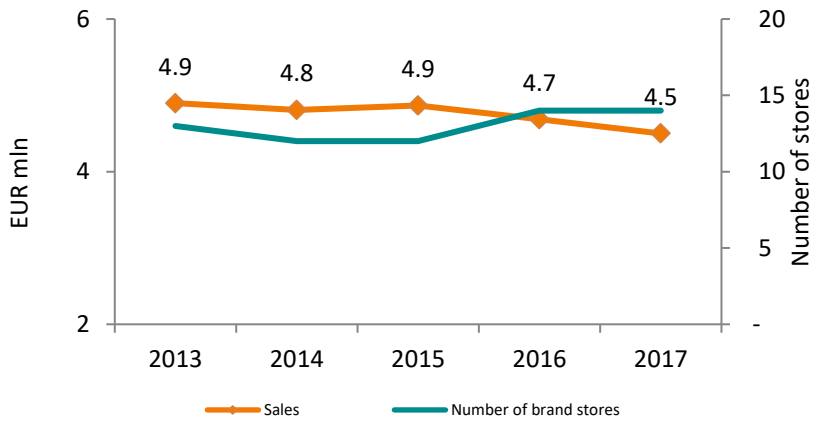
Baltman is the oldest brand of Baltika Group - it was created in 1991. Baltman offers both classic and trendy clothing fulfilling all everyday needs of today´s modern man.

Baltman's head designed Aivar Antonio Lätt always takes into account when creating the collection global trends in fashion, creating unique mix of Scandinavian minimalistic design and Mediterranean rich fabrics.

The use of premium-quality fabrics is an important cornerstone in creating the Baltman collections. Baltman cooperates with fabric producers of long-standing history and production experience from all over the world. Baltman suits, for instance, are made of fabrics made by Loro Piana, Dormeuil and Lanificio Cerruti that are also used by many other high-end brands. All Baltman suits are manufactured in Estonia, at Baltika Group's production enterprise Baltika Tailor.

Baltman participated together with many other Estonian fashion and beauty brands in September 2017 event programme dedicated to Estonia´s 100 and Canada´s 150th birthday - Northern Spirit EstoStyle that introduced Estonian fashion and design.

Baltman retail sales



Ivo Nikkolo

The total sales revenue of the Ivo Nikkolo brand amounted to EUR 4.5 million in 2017, having increased by 1% over the year. Ivo-Nikkolo continued growing trend in e-store, being third largest brand from Baltika´s brands.

Ivo Nikkolo brand is represented in 13 concept stores, all located in Baltika's own retail network in the Baltic region.

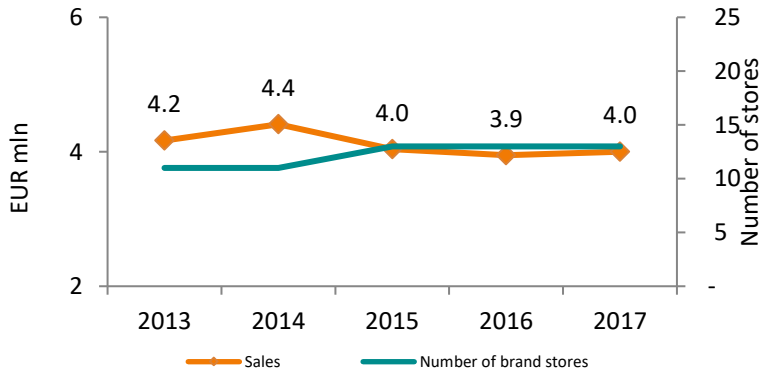
The Ivo Nikkolo collection is renowned and appreciated thanks to its original and recognisable design signature as well as for the use of high-quality and innovative fabrics. No less importance can be placed on the high fabric quality requirements of the fans of the Ivo Nikkolo brand. Ivo Nikkolo's customers are independent, value distinguished and appreciate the original design, which is playful and often includes surprising details. In 2017, new designer team started to work with Ivo Nikkolo – Britta Laumets as head designer and Frida Jõe as junior designer.

In 2017, the good results in spring season played a significant role in increasing sales, but also autumn season helped, whereby the same gross profit was achieved with smaller purchased inventory.

Ivo Nikkolo collection was included to selection of Tallinn Design House that converges the best of Estonian design, starting from fashion designers and finishing with furniture design. In spring 2017, Ivo Nikkolo helped a young jewellery artist Triin Kukk, whose selection of jewellery were sold in Ivo Nikkolo stores and e-store. In the end of year 2017 Ivo Nikkolo's exclusive scented candle made its way to the stores, being produced in Võhma light factory and which special aroma was chosen by brand designers. Ivo-Nikkolo´s yearly party collection was presented both in Polhem PR showroom and client event in Suur-Karja brand store.

To Celebrate Estonia's 100th and Canada's 150th birthday, a premiere under the concept called Northern Spirit EstoStyle was held in Toronto in Canada in September 2017. During this event, eight internationally most recognized Estonian fashion and design brands were showcased. Ivo Nikkolo, Baltman and Monton were represented.

Ivo Nikkolo retail sales

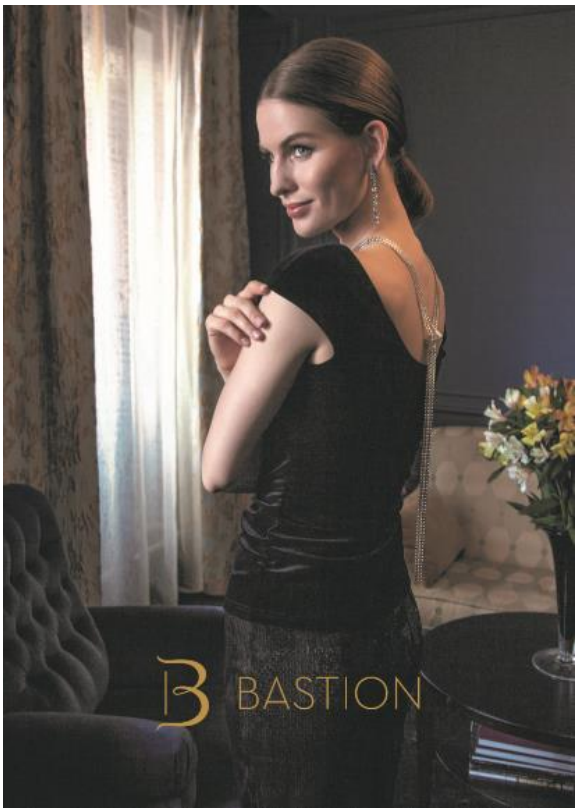


Bastion

The total sales revenue of the Bastion brand amounted to 2.2 million euros in 2017, having increased by 13% in a year. Sales through e-store increased by remarkable 52%. Bastion is still the least represented and lowest volume brand in Baltika's brand portfolio.

As of the end of 2017, there were 7 Bastion concept stores, 6 in Estonia and 1 in Latvia. Bastion brand was in addition also represented in multi-brand stores in Estonia, Latvia and Lithuania.

The signature of the Bastion collection continues along feminine lines, offering its customers clothing for every occasion. Quite a few products are wearable 8+5 hours – suitable for both the office and a party or other important event afterwards. Attention is also paid to the comfort of the wearer; for this reason, the collection mainly uses stretchy hosiery fabrics.

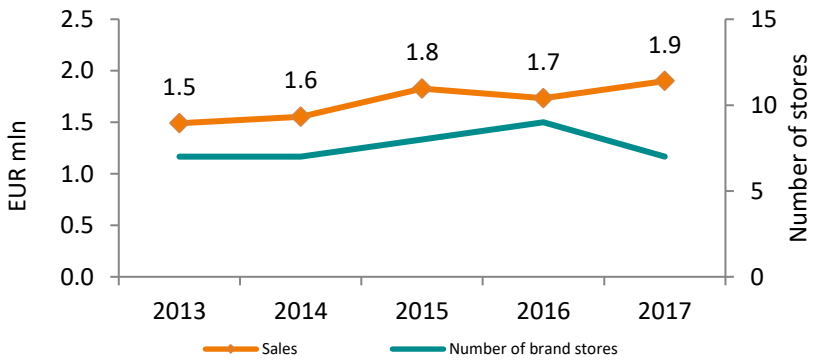


The spring collection gross profit increased compared to last year same period by 40%, largest increase came from dresses and outerwear product categories.

In May 2017, Bastion celebrated its 30th anniversary with a grand jubilee celebrations in Bastion´s first store in Tallinn on Viru Street. In addition, members of Estonian women band La La Ladies designed the special spring collection that was especially outstanding with its daring colours and fittings. Collection was very well accepted by current and new clients. The representing figures were the La La Ladies members Kethi Uibomägi, Inga Tislar and Diana Varik. A sensual top, to make Bastion collection perfect, was designed by domestic lingerie brand Bon Bon Lingerie.

The special year-end collection was born in cooperation with Estonian jewellery brand Goldtime, which resulted in putting together the need for both beautiful clothing and jewellery for women for year-end celebrations. Goldtime designed jewellery specially for this collection. The special collection was presented in the beginning of December in Hilton Tallinn Park Hotel. The model for the collection was radiant Heti Tulve.

Bastion retail sales



WHOLESALE AND FRANCHISE

The objective for 2017 was to grow together with Peek & Cloppenburg chain in Europe department stores, successfully activate Serbian market with new multibrand concept and find 1 new franchise partner.

Wholesale and franchise revenue in 2017 was 6.3 million euros, increasing by 0.3 million euros i.e. 5% compared to last year.

Increasing sales turned out to be rather challenging, especially due to the economic situation in CIS countries and rouble volatility, continued depreciation of Ukrainian hryvna. Buyers' willingness and capability to purchase in Russia, Ukraine and Belarus continued to be low. In Ukraine one new Monton store was opened in Kiev and one low profit store in Kiev was closed. In the same time Russian franchise partner closed one store with low efficiency in Moscow. As at the end of the year there were 29 franchise stores in CIS countries, decreasing by 1 in a year.

The growth of volume was mainly supported by entering a new, Serbian franchise market and wholesale growth to Peek & Cloppenburg department store chain. Monton collection was sold as at the end of the year to 39 Peek & Cloppenburg department stores in Europe, that is the number of department stores selling Monton increased by 14.

Baltika´s franchise portfolio also increased in addition to increase of wholesale selling points. In October 2016 Baltika signed a franchise agreement with Serbian enterprise Victoria Elegans d.o.o., in cooperation with whom a new Monton Andmore store representing Baltika brands was opened in Novi Sad, Serbia on 8th of March.

Monton Andmore is a new further development of multibrand store concept, where other Baltika brands are also present in addition to Monton. Monton, Mosaic and Bastion are represented in Serbian Monton Andmore store.

At the end of the year there were 33 franchise stores, forming 26% of total stores portfolio.

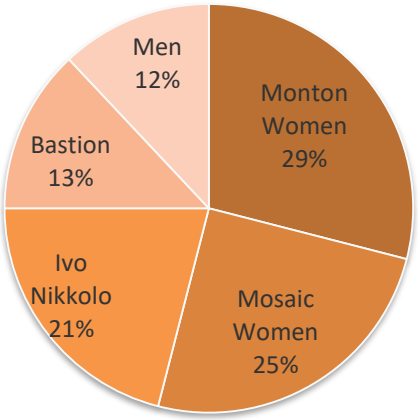
Monton brand showed the highest volume in 2017 of Baltika export portfolio and grew by 13% and its share from wholesale and franchise sales was 59%.

The objective for 2018 is to keep existing clients, offering them the best collection and to find new wholesale and franchise partners.

E-STORE SALES

Baltika´s e-store Andmorefashion.com sales grew fast. Year total e-store revenue was 1.5 million euros that is 38% more than in 2016. The month with biggest sales was November, when many e-commerce specific actions took place, including Cyber-Monday (E-smaspäev).

E-store revenue by collections



Most popular product departments continued to be dresses and cardigans, which were sold respectively 10,000 and 7,000 pieces. Only 12% of e-store sales was derived from men collections: Mosaic men, Monton men and Baltman.

86% of sales formed from Baltic countries, but at the same time the fastest growth was in Latvia (53% compared to year 2016) and Lithuania (44% compared to year 2016). Sales in Estonia grew by 35% compared to year 2016. Overall from year 2017 sales 54% was in Estonia, 17% was in Latvia, 15% was in Lithuania, 6% was in Russia, 3% was in Finland and 5% was in other countries. In summary 25 900 orders were made from Andmorefashion.com from 37 countries around the world. Compared to year 2016 number of orders increased by 8,700 and countries of destination by 2.

Number of visitors remained roughly the same compared to prior year, but conversion increased significantly. Over the year 1,200,000 customers from more than 77 countries visited Andmorefashion.com website. Average e-store visitor was a woman in age group 25-44.

Sales growth was due to wider selection, faster and more efficient logistics and improved customer experience. Focus stayed over the year to increase the speed of e-store, create simpler and clearer page structure. Click&Collect service expanded to Baltic countries. As at the end of year 2017, it was possible to receive e-store packages from 11 Estonian stores, 2 Latvian stores and 1 Lithuanian store.

In 2018, the focus is the increase sales outside Estonia and prepare development plan for new webpage. Plan is to widen Click&Collect service in Latvian and Lithuanian market, improve the integration between actual stores and e-store and optimise conversion through improvements and marketing.

OPERATING EXPENSES AND PROFIT

Baltika's gross profit margin in 2017 was 49.9%, which means staying on last year level (2016:50.0%). In line with the increase of sales, the gross profit also increased by 1%. Group's gross profit was 23.7 million euros i.e. 0.2 million euros more than the comparative result from last year.

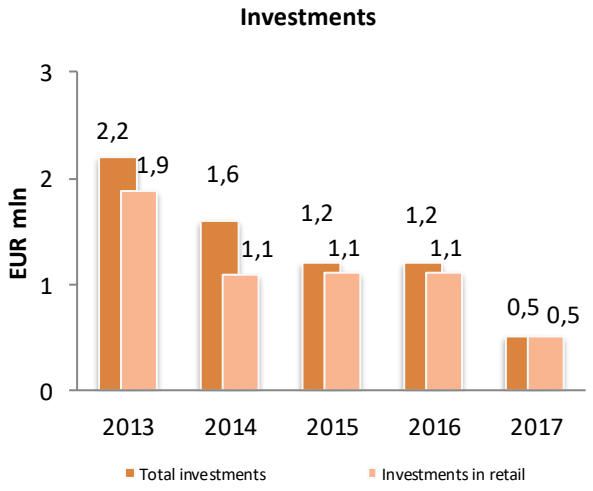
Distribution expense increased 1% i.e. 0.3 million euros compared to last year and was 20.6 million euros. Distribution expense in head-office decreased 2% i.e. 0.1 million euros compared to last year owing to more efficient processes, meanwhile Baltics retail market costs have increased 3% i.e. 0.4 million euros due to both more average retail space and cost pressure. General and administrative expense were 2.4 million euros, decreasing 5% compared to last year. In 2017 distribution and general expense ratio to revenue was 48.5% (2016: 48.6%). Therefore keeping cost under control together with sales increase has kept the distribution and administration expense ratio to revenue, and improved it by 0.1 percentage points.

The financial expense in 2017 stayed on last year's level and was 0.5 million euros, which makes Baltika Group's 2017 net profit 0.1 million euros. Comparative result from last year was 0.2 million euros net profit.

FINANCIAL POSITION

As at 31 December 2017, Baltika Group inventories totalled 10.5 million euros, decreasing 0.6 million euros compared to last year-end. Decrease is due to decrease of finished goods and goods purchased for resale.

As at 31 December 2017 the property, plant and equipment and intangible assets cost value was 3.9 million euros (31.12.2016: 4.7 million euros). Investments into material and immaterial assets were 0.5 million euros. The property, plant and equipment and intangible assets depreciation and amortization totalled 1.2 million euros (2016: 1.3 million euros).



As at 31 December 2017 borrowings amounted 6.7 million euros, which signifies together with the usage of overdraft facility decrease of 0.4 million euros compared to the last year-end (31 December 2016: 7.0 million euros). Decrease is due to smaller need for use of overdraft facility that balance decreased by 1 million euros. In addition a significant change in borrowings took place when J-bonds were redeemed and K-bonds issued. 593 J-bonds from 600 were exchanged for K-bonds. The volume of issued K-bonds was 4.4 million euros (J-bonds issuance amount was 3 million euros, which had accrued 0.6 million euros interest), therefore additional capital was received from investors. Meanwhile in addition to decrease in usage of overdraft facility bank loans balance decreased by 0.6 million euros.

As at 31 December 2017 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 6.0 million euros, which is 0.4 million euros less than at the end of last year. The net debt to equity ratio was 115% as at 31 December 2017 (31 December 2016: 133%). The improvement of the ratio is mainly due to decreased usage of overdraft facility. Liquidity ratio has improved over the comparable periods from 1.1 to 1.8.

As at 31 December 2017 total equity attributable to equity holders of the parent was 5.2 million euros (31 December 2016: 5.0 million).

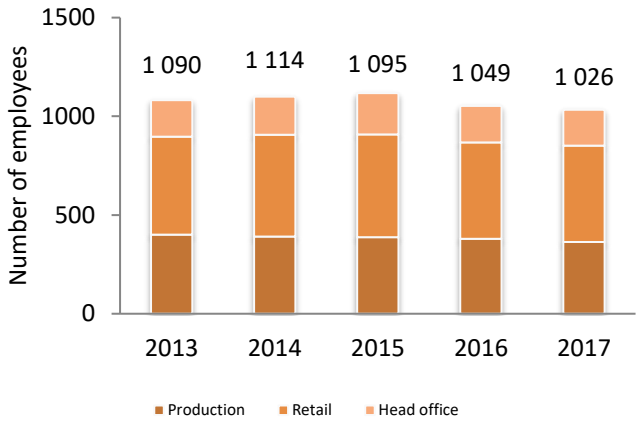
CASH FLOWS

In 2017 company's cash flow from operating activities was 1.7 million euros, increasing 1.2 million euros compared to last year. Increase is mainly attributable to decrease in inventory. As no major changes were made in store portfolio in year 2017, then input to the investment activities i.e. purchase of property, plant and equipment and intangible assets were made in much smaller amount than in prior year that is 0.4 million euros (2016:1.2 million euros). Bank loan repayments together with overdraft facility were made in amount of 1.6 million euros, which is more than received investment loans in 2017 (2016: 0.9 million euros were received). The redemption of J-bonds and issuance of K-bonds amounted to additional incoming investment of net 0.8 million euros. 1 million euros was used for financing cash flows (2016: 0.7 million euros were received). Group cash flow amounted to 0.3 million euros (2016: 0.0 million euros), which resulted in cash balance in amount of 0.7 million euros as at the end of the year.

PEOPLE

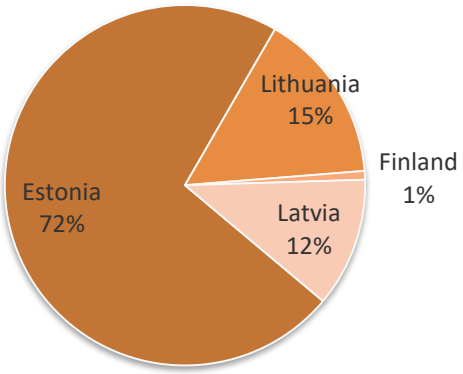
As at 31 December 2017 Baltika Group employed 1,026 people that is 23 people less than as at 31 December 2016 (1,049). The 2017 twelve months' average number of staff in Group was 1,044 (12 months 2016: 1,073).

Number of employees



Baltika Group employees' remuneration expense in twelve months amounted to 10.6 million euros (2016: 10.5 million euros). The accrued remuneration of the member of the Supervisory Board and Management Board totalled 0.3 million euros (2016: 0.3 million euros).

Breakdown of personnel by country at 31 December 2017



In relation to unite marketing and communication areas in Baltika Group and bring their management under one unit, starting from December Mari-Liis Küppar works in AS Baltika as new Marketing and Communication Manager. She has previous working experience in Swedbank AS, Saku Õlletehase AS and AS Värska Vesi. The strong synergy arising from the joining of marketing and communication is used for bringing Group's business strategy into life.

Starting from January 2018, Raivo Videvik is working in Baltika as new Export Director, for the purpose to put effort into the growth of export and to accelerate the increase of sales in franchise and wholesale. Previously, Raivo Videvik has been responsible for managing sales department and export area in Timbeco Woodhouse OÜ, being active in developing business and retail processes in Elektrum Eesti OÜ and also in Eesti Gaas AS.

BALTIKA GROUP'S "STRATEGY 2022" MANAGEMENT TEAM

AS Baltika Head-office:

Meelis Milder
Chairman of the Management Board, CEO

Maigi Pärnik-Pernik
Member of the Management Board, CFO

Pille Lauring
Head of Collections
Womenswear - Monton

Kaja Milder
Head of Collections
Menswear - Baltman, Mosaic, Monton

Kaie Kaas-Ojavere
Head of Collections
Womenswear - Mosaic, Ivo Nikkolo, Bastion

Maire Milder
Director of Branding and Retail Development

Raivo Videvik
Export Director

Kairi Nodapera
Human Resource Manager

Mari-Liis Küppar
Marketing and Communication Manager

Brigitta Kippak
Head of Sales Planning and Merchandising

Triinu Tarkin
Head of Finance

Külli Koort
Head of E-commerce and Client Program

Ülle Uljata
Purchasing and Supply Chain Manager

Retail Organisations:

Tiina Varamäe
Market Manager
Estonia

Viktorija Krolyte
Market Manager
Lithuania

Marko Vuorinen
Market Manager
Finland

Maruta Ergle
Market Manager
Latvia

OUTLOOK AND OBJECTIVES FOR 2018

Economic environment

The economic growth in year 2018 is expected slightly lower than in prior year 2017, but international export and investment gives good reasons to expect positive economic development and analytics expect over 3% economic growth in Baltics.

Expectations for 2018 are similar for Estonia, Latvia and Lithuania: economic growth will be around 3.5-4.5%. Economic growth is supported by growth of public sector investments and European Structural Funds. Household consumption is expected to continue to grow as the salaries rise.

The aforementioned events may have an important effect on the future activities and financial standing of Baltika Group, but the extent of their possible impact is still hard to forecast. The future economic situation and the effect thereof on the activities of Baltika Group may differ from the management's expectations.

Baltika Group

The second half of year 2017 Baltika Group was developing Strategy 2022 that is focused on international sales growth.

Baltika Group uses 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. This kind of model is complicated to manage, therefore one of the set objectives is to reduce complexity and simplify processes. During year 2018 more concrete steps will be developed to facilitate business processes. This should also ease the pressure to the growth of operating expenses, especially regarding labour costs.

One of the essential objectives in 2018 is continually to maintain and increase sales volumes and profitability in the Baltic retail market through offering customers a better shopping experience. Objective for year 2018 is to develop further multibrand store concept and work out a plan for digitalisation.

Development of e-store continues to improve Andmorefashion.com and physical retail store integration. Focus is on increasing loyal customer revenue.

Important objective for Baltika remains the need to grow, in addition to home market, also outside the Baltics and to do that through business partners. Finding new franchise partners and making cooperation model simpler are in focus. Cooperation is also searched with international department stores, which requires cooperation model between merchant and brand owner to have bigger flexibility.

The Management board has divided the objectives into three groups:

- Successful company. Create foundation for the "Strategy 2022" to succeed, thereof develop digital toolkits for inventory management and product development, promote new supply markets and optimize shop network in Baltics;
- Content customer. Increase sales revenue in all sales channels, increase sales in Finnish market, develop new on-line off-line multibrand concept and find at least two new trade partners;
- Motivated employee: to increase profitability it is important to maintain employees' motivation and dedication.

Besides to the ordinary investments in retail network, also investments to develop new multibrand concept, as well to develop and digitalize processes in the frame of new strategy, are planned for 2018.

SOCIAL RESPONSIBILITY REPORT

The foundation of the activities of Baltika Group are transparent. The Group regards social responsibility and environmental impact management as being important in its everyday activity. More detailed coverage of the natural environment (production, supply, material and resource handling) and social aspects (employees, human rights, transparent management) related to the Group's activities confirm its will to make an increasing substantive contribution in those areas.

Baltika contributes to the development of socially important areas through various projects. The environmental parameter has been integrated into the Group's management system and the everyday work of individual units is organised in as environmentally friendly manner as possible.

The Company cares for its employees and has established the valuation of employees as a strategically important subject. Baltika Group aims to ensure that the entire supply chain observes the social and environmental principles and requirements established by Baltika.

EMPLOYEES

Baltika Group is an international organisation that supports diversity, different cultures and nationalities.

As at 31 December 2017, Baltika employed 1,026 people, which is 23 people fewer than on 31 December 2016 (1,049). In total, 488 people worked in retail (31 December 2016: 487), 363 in production (31 December 2016: 380) and 175 at the headquarters and the logistics centre (31 December 2016: 182).

The personnel of Baltika Group in 2017:

- 5.2% men and 94.8% women;
- 42 years is the average age in Baltika Group, thereof 50 years in the production units;
- The average length of service in Baltika Group is 11.1 years. The employees of the production units have the greatest length of service – 19 on the average. The employees of the Latvia retail organisation have the shortest average length of service – 5.1 years;
- People of 10 different nationalities work at Baltika's headquarters.

Photo: "People of Baltika" different team members from design to sales. August 2017

Baltika Group's personnel by units

	Personnel 31 Dec 2017	%	Men (%)	Women (%)	Started working in 2017	Left during 2017
Baltika AS	175	17.0%	3.1%	13.9%	27	33
Baltika Tailor OÜ	363	35.4%	1.1%	34.3%	39	57
Retail, thereof	488	47.6%	1.2%	46.4%	298	316
Estonia	203	19.8%	0.4%	19.4%	74	78
Lithuania	158	15.4%	0.2%	15.2%	103	126
Latvia	119	11.6%	0.4%	11.2%	113	112
Finland	8	0.8%	0.2%	0.6%	8	0
Baltika Group	**1,026**	**100%**	**5%**	**95%**	**364**	**406**

Baltika Group's personnel by markets

	Personnel 31 Dec 2017	%	Men (%)	Women (%)	Started working in 2017	Left during 2017
Estonia	741	72.2%	4.6%	67.7%	140	168
Lithuania	158	15.4%	0.2%	15.2%	103	126
Latvia	119	11.6%	0.4%	11.2%	113	112
Finland	8	0.8%	0.2%	0.6%	8	
Baltika Group	**1,026**	**100%**	**5%**	**95%**	**364**	**406**

Baltika Group considers employee satisfaction and motivation as well as the image of the employer to be important areas. In 2017, the corporate values of Baltika Group were renewed. Renewed values were delivered to every employee through creative and uniting game of values. Baltika's new values are: We think without boundaries; We create solutions; Together, anything is possible. These three values, they are a compass for decision making and supporting employees in their everyday actions. Addition to that, the employees' value proposition was developed for every company in the Group, to focus on how company supports the personal development of employee, cares for and pays attention to its staff.

In 2017, personnel rules and principles of Baltika were renewed. Personnel rules and principles are stated in the rules of procedure that determine the mutual obligations and rights of the employee and the employer, maintenance of trade secrets and the principles of prevention of conflicts of interest and corruption. Regulations implementing the rules of procedure have been established in all the Group entities.

In addition, implementation of processes important from the viewpoint of employee development and motivation continued. The new employee inception programme was improved and gathered feedback from new and former employees were analysed to make necessary changes in existing processes.

Risks and risk management

Baltika Group has mapped employee-related risks in all the markets and taken those risks into account in the development of its strategic directions of activity. The latter is focused on risks related to the recruitment and training of employees, the improvement of motivation and satisfaction, and the strengthening of the Baltika Group brand as an employer. In 2017, Baltika started renewing the recruiting ads, using photos of own employees on them. Also, social media as recruiting channel is used more actively. It is important, that new potential and existing employees will find information about the company fast and easy. Serving that goal, Baltika is improving its career section in corporate web page, changes should be ready during 2018. Stating from 2017, Baltika's values and story has been presented on corporate web page.

Photo: Examples of renewed recruitment advertisements (Sales assistant, warehouse keeper, sewer).

To ensure the growth of future generation for the company, Baltika is in close collaboration with different Estonian Universities (Estonian Academy of Arts, Tallinn University of Applied Sciences, Tallinn University of Technology) and offers strong internship to students. Baltika has every year many students as an intern, who very often will become new employees. In 2017, Baltika had nearly 40 interns. Starting from 2016, to appreciate its bright interns, Baltika has nominated them to the intern competition called Intern Cum Laude organized by The Estonian Employers' Confederation, where they always have received recognition. To have important positions fulfilled in the future, Baltika plans to map the key positions and their next generation to grow.

Photo on the right: Glairy Kohv, Baltika's intern recognized in 2017, in Intern Cum Laude competition and CEO of ERTL Ruta Rannala

Occupational health and safety

Due to the specific nature of the production and retail trade areas, occupational health and safety risks are very important for the company. Baltika acknowledges and takes those risks into consideration in its everyday activities, as evidenced by the small number of work accidents.

Every Baltika unit has specialists who are responsible for matters related to occupational health and safety. Their task is to introduce all new employees to the relevant processes and guidelines and to plan changes in the area of occupational health and safety.

- **In 2017 there were 1 industrial accidents registered in Baltika Group. There were no fatal accidents.**

Involvement and development of employees

Baltika Group supports gathering open feedback and values the diversity of opinions. In addition to communication supporting working environment and active e-mail communication, there are organized employee satisfaction surveys with open-ended answers. Purpose of the satisfaction survey is to get feedback and input for company's strategic decisions concerning Baltika's employees. Survey, organized in 2017 got feedback from nearly 70% of employees. Survey included topics concerning reputation, working environment, managing company and departments and satisfaction with them. Survey revealed that higher scores were given to working in department, quality of management and employees felt proud to be working in Baltika. Next survey will be organized in 2018.

In addition, professional development interviews are organized regularly, internal web news section with opportunity to comment is more advanced etc.

Baltika values its people and places great importance on the training and development of employees. In 2016, the company launched the Fashion Academy training programme, during two years employees have learned about retail trade management and holding negotiations as well as the general economic and management areas. In 2017, course of matrix management was held. For the third year the employee exchange projects Shop Day and Office Day were in progress, with employees from the headquarters working in stores and experiencing the everyday store activities, and vice versa. Twice a year, before the release of a new collection, the retail employees of all Baltika's three home markets (Estonia, Latvia, Lithuania) receive thorough training related to the new collection. Baltika shares its experience with other enterprises as well – in 2017, Baltika's technologists visited production unit in OÜ Norrison and managers have visited other Estonian companies (for example Proekspert AS). Baltika Group maps training and development needs once a year.

Baltika values sharing experience with its people and involving them. One of the Baltika's values is "Together, anything is possible". Baltika's employees have opportunity to take part in different work groups throughout the Group – for example, Baltika's new year event is organized by team, whose members are with very different backgrounds from all over the Group.

- **In 2017 75% of Baltika Group's employees took part from training and development activities (incl. new collection introduction).**

In addition to improving professional skills, Baltika Group pays special attention to increasing the health awareness of its employees. In 2016 the Estonian unit of Baltika Group held a Health Week, which expanded to cover the entire Group in 2017. The Health Week held twice a year (in spring and in autumn) includes various events aimed at increasing the health awareness of employees.

How does Baltika Group care for its employees?

- Remembers long-standing employees and recognises them at corporate events (starting from 2017, employees will be recognised starting from 5-year work anniversary in every five years);
- Offers extra vacation days for employees, proportionally to their length of service;
- Recognises employees who are successful in their work, good team players and creators and maintainers of a positive internal environment (annual recognition of the Employees of the Year);
- Places importance on time spent together outside of work and organises fun joint events for its employees;
- Considers it important to involve employees in organising and carrying out various events, e.g. organising fashion shows at the beginning of seasons and participating in such shows as models;
- In anniversary years, Baltika organises a great joint get-together for its former long-standing employees.

CUSTOMER EXPERIENCE MANAGMENT

In Baltika Group, the following regulations control sales activities aimed at retail customers, the store operating practices and customer communications:

- Customer communication and marketing and advertising activities are based on the internal activity guidelines agreed in the Group. In addition, Baltika also complies with all the norms established by law in its home markets.
- Retail Operations Manual. The document contains complete information about the company, brands, customer programme, customer communication and customer service standards, customer complaint handling procedure, consumer protection, work safety, products and product handling and display, retail

trade indicators, employee motivation systems, etc. The document is updated every year. A similar manual has also been developed for Baltika Group's franchise partners. The aim of the manual is to ensure that the customer experience in stores operating under the Baltika brand is the same as in Baltika's own retail stores.

- Monthly, Retail Council meeting is held, which includes the heads of Baltika Group's three retail markets, the Group's Marketing and Sales Director, and the Group's Chief Executive Officer. The objective of the Retail Council is to increase the efficiency of retail trade processes and thereby improve the efficiency of work organisation and customer satisfaction.

In 2017, satisfaction survey was organized among Monton's loyal customers, feedback covered information about customers' buying behaviour as well as about product price, quality, fit etc.

Everyday feedback on products and collections given by customers to Baltika's customer service personnel, reaches the head-quarter of Baltika Group via regular reports. Customers can also provide feedback via Customer Support e-mail or Customer Support hotline – those channels give us valuable feedback on both products and the service level in Baltika stores.

The customer complaints process (including returns and replacements) is in the retail frontline competence. A separate process and information system has been created for product quality related feedback from customers, through which information is gathered from the customers of retail organisations and forwarded to the quality department of Baltika Group. The history of complaints forwarded by e-mail and telephone is recorded automatically. Complaints are solved in the company on a case-specific basis. If complaints become more frequent in an area, this is pointed out to the head of the relevant area.

- **In 2017 there were no violation of marketing ethics, also no registered violation in consumer protection.**

HUMAN RIGHTS

Baltika Group is dedicated to ensuring that the conduct of all the parts of the production and supply chain is ethical and responsible. In its work, Baltika Group complies with the International Labour Organisation's convention on the basis of which the Ethical Trading Initiative used in Baltika Group has been prepared.

In its processes, Baltika Group observes the Supplier Manual, which describes how to ensure proper working conditions and the protection of all human rights for all employees throughout the supply chain. Thus, the Supplier Manual stipulates how to ensure safe and hygienic working conditions, fair pay and holidays and other such aspects for the employees.

In order to ensure compliance with human rights, Baltika's employees conduct audits among the existing and potential new suppliers at least once every year, checking, among other things, that no child labour is used, work is paid for, working conditions are humane, work safety is ensured, etc.

COMMUNITY ACTIVITIES AND SPONSORSHIP

Community activities of Baltika Group

In order to support a positive image and achieve the common goals of Baltika Group, the company has for years engaged in the development of the fashion and clothes industry and the creative industry community. Baltika Group supports the fashion design department of the Estonian Academy of Arts and the areas of specialisation related to the clothes industry at the Tallinn University of Applied Sciences, supporting the education of young fashion design students with a monetary grant under a cooperation agreement and involving students in various high-level training courses offered to the employees of the Baltika Group. In addition, in 2017 the chief specialists and department heads of Baltika Group gave lectures and conducted training events for the students of the

Estonian Academy of Arts, and engaged students in the creation of collections. Baltika Group and the Estonian Academy of Arts, the Tallinn Industrial Education Centre, the Tallinn University of Applied Sciences and Tallinn University of Technology have established a well-functioning practice placement system in the framework of which design and clothes industry students can obtain practical knowledge at Baltika Group. In addition, all the students of clothes design and technology areas in Estonia are taken on excursions to Baltika Group's production and logistics units as well as to the headquarters in order to give the students a good overview of the functioning of a clothes industry enterprise.

Baltika Group is also involved in activities related to supporting and developing the creative industry business. To this end, the members of Baltika Group's management belong to the management board of the Estonian Service Industry Association, the supervisory board of the Estonian Design Centre, the management board of the Estonian Fashion Brands Association, the Estonian Clothing and Textile Association and the management board of the Estonian Traders' Association, working in those professional associations and non-profit organisations outside their everyday work to promote the creative and clothes industry in Estonia.

With regard to sponsorship, charity and community activities, Baltika Group relies on Baltika's values and sponsorship principles. Baltika Group strives to be a responsibly operating member of society and contribute towards preserving/developing the heritage of Estonian fashion design and clothes industry as well as towards encouraging design approaches.

Areas supported:

- Development of the fashion design and clothing industry areas;
- Design and clothing industry education;
- Encouraging the creative industry.

Baltika Group therefore supported various activities in 2017 to inspire and recognise a new generation of fashion designers. Those fashion events included Fashion Plane, the ERKI Fashion Show of the Estonian Academy of Arts, the MPT Fashion show of the Tartu Art College, the fashion show 'Pink Scissors' of Rocca Al Mare School, etc.

Sponsorship on Baltika Group's retail markets

Monton

Monton started collaboration with Baltic Sea Philharmonic headed with Kristjan Järvi, creating them special concert clothing inspired by idea of new orchestra's tour "Waterworks". Concert clothing reflected different forms and colours of the water and formed important part of unified artistic concept, created by Kristjan Järvi, fusing music, light, visual art, sound design and fashion design created in Estonia.

Collaboration was revealed at the orchestra's concerts tour "Waterworks" in Germany and Denmark. Outfits were specially designed to reflect the water theme of the programme, with sheer textiles and shades of blue, white and grey replacing the traditional uniformity of formal concert attire. Different items in different shades and textures, reflecting the nature of the water, were mixed together creating visual spectacle imitating sea waves.

Photo. Baltic Sea Philharmonic Orchestra wearing Monton

Monton has been sponsoring the Estonian Olympic Committee since 2004, during which time the designers at Monton have created ceremonial outfits for the Estonian Olympic athletes. The athletes have worn collections designed especially for the Olympic Games in Athens, Turin, Beijing, Vancouver, London, Sochi as well as in Rio de Janeiro.

The special collection created for the 2018 Pyeongchang Winter Olympic Games is named „1918". Special collection was collective gift from Monton and Estonian Olympic Committee to Estonia for its 100th birthday. Monton's "1918" Olympic collection boasts exciting designs that combine athletic, fashionable and comfortable. For ideas, Monton's designers drew inspiration from the fashion of the first Republic of Estonia – a period when, for the first time in the history of the world, designers started developing clothes specifically intended as sportswear. This era is characterised by comfortable roll-neck knitwear and extended waists in women's fashion. Special collections arrived into stores in November and in very short time it received positive feedback from both

athletes and sports fans, who found something from this collection to celebrate Estonia's birthday together and cheer for our wonderful athletes at the Winter Olympics.

In addition to long-term collaboration with the Estonian Olympic Committee, Monton has also been supporting Estonia's most successful student company for several years now. In 2017, the best student company was Festera, who with its bio-boxes found place not only in the hearts of Estonians but also Europeans and got the recognition of the best student company in Europe in 2017. Establishment of the company of students of Hugo Treffner Gymnasium, Festera Bioboxes OÜ started from an idea of four young wonderful people, who wanted to make the world a better place.

Monton was major sponsor to Estonian representatives in Eurovision Song Contest, where Laura Põldwere wore exclusive dresses made for Tallinn Fashion Week.

In Lithuania, Monton's collaboration with the Lithuanian Beach Volleyball Federation is continuing – the Lithuanian retail organisation sponsored the beach volleyball player Ieva Dumbauskaitė, who represents Lithuania in both national and international competitions. As part of the sponsorship, the company helps to set up new beach volleyball courts in order to popularize sports among not only professional athletes but also ordinary people interested in a healthy lifestyle.

Photo: Olympic team members Anette Veerpalu and Kristjan Ilves were participating in Monton Olympic collection promotions

Photo: Ieva Dumbauskaitė wearing Monton collection

Mosaic

In Estonia, just before the Mothers' Day, Mosaic in collaboration with the news portal Delfi supported mothers who are not able to afford a sophisticated outfit in their everyday lives. A set of items from the Mosaic collection, stylised by the head designer of Mosaic women's collection Merle Lõhmus, was given as a gift to five hardworking mothers.

In 2017, Mosaic started collaboration with Estonian Volleyball national team and with basketball club BC Kalev Cramo. Coaches and support unit members of both teams are going to wear Mosaic's comfortable suits to maintain the perfectly chic look in the most tense competition situation.

In Latvia, in 2017 Mosaic supported the annual Latvian teachers' conference, awarding four Latvia's best teachers with valuable gifts.

Baltman

Baltman has been creating world class business attire in the Baltic States for a quarter of a century. The brand's aim is to recognize and praise fearless people in Estonia, Latvia and Lithuania – people whose courage to initiate change, sense of responsibility and entrepreneurial spirit have moved our life forward.

Already since 2006, Baltman has been sponsor to the Estonian national football team, dressing up Estonian best footballers. National football team coaches and support unit members wear Baltman Travel suites on sport arenas, which perfectly suit for intensive work and tight competition schedules due to their high quality and comfortability. Baltman suits are produced in Estonia and made from nano-technologically processed fabrics, which makes the clothes almost care free as they are liquid repellent and wrinkle free.

In addition, Estonian star-footballers Mihkel Aksalu, Mattias Käit and Konstantin Vassiljev wear Baltman Unique, made on a special order. In case of Baltman Unique, there is opportunity to choose from more than 200 different fabrics design and pick all details for the suit – from buttons to lining, creating unique suit. Wide range includes high level Loro Piana and Dormeuil fabrics, which are also used by many internationally well-known fashion houses like Hugo Boss and Armani Collezioni for making their suits.

Photo: Footballers of the Estonian national football team Mattias Käit and Mihkel Aksalu wering Baltman Unique suits.

In Latvia, Baltman primarily supports the country's most influential fields of sport, which greatly impact the society and inspire youth – bobsledding, ice hockey, basketball and football. In 2017 the company continued to collaborate with Kaspars Daugaviņš, captain of the Latvian national ice hockey team, to support his dedication, work ethic and passion for ice hockey. In addition, Baltman sponsored the entire Latvian national ice hockey team by providing them with high-quality formal suits, including the team's management as well as every player on the field. Furthermore, Baltman supports the Latvian national symphony orchestra by providing the 100-member orchestra with Baltman dress coats. The Latvian national symphony orchestra was founded in 1926, and its 100-member team of top musicians is held in high regard within the country as well as abroad – with their 250 performances per year they brilliantly represent Latvia and the entire Baltic region.

Photo: Captain of Latvian hockey association Kaspars Daugaviņš wearing Baltman suit

In Lithuania, in 2017 Baltman continued to support Lithuania's most successful basketball club Kaunas Žalgiris, whose coaches are wearing Baltman Travel suits already for the third season. In addition to coaches, athletes wear Baltman's smart casual sets on the road to competition, interacting with media or in other formal situation when representing the team. Successful can be considered the media campaign in collaboration with Kaunas Žalgiris head coach Šarūnas Jasikevičius, within media reviews and social media appeared in common.

Photo: Kaunas Žalgiris head coach Šarūnas Jasikevičius

Ivo Nikkolo

In spring season, Ivo Nikkolo offered in its stores all over the Baltics and in e-store, creation of young talented jewellery artist Triin Kukk, with the aim of helping to showcase her creative output on the international arena and grow the brand image. Jewellery collection was handmade and specially designed to suit with Ivo Nikkolo's collection.

MANAGEMENT OF ENVIRONMENTAL IMPACTS

General management of environmental aspects

Baltika Group pays attention to environmental impacts related to the fashion industry and production (e.g. use of resources, chemicals and waste) in supply chain management, in the head office, as well as in the Estonian production units in Tallinn and at Ahtme in Ida-Viru County. Environmental impact management is also directed by our European retail and wholesale trade partners, who have established strict requirements for the quality and environmental aspects related to the products.

For Baltika, the management of environmental impacts, transparency and traceability are the cornerstones of the supply chain. As a result, one of the primary documents regulating collaboration between Baltika Group and its suppliers is the Supplier Manual. This document sets out the principles of ethical and responsible procurement, establishing requirements for quality, environmental issues as well as labour aspects related to the issue of ethics. The development and annual updating of the Supplier Manual involves all departments in Baltika Group.

The main environment-related aspects regulated by the Supplier Manual are as follows:

- Waste reduction and environmentally-friendly waste management;
- Optimisation of the use of energy and natural resources by suppliers;
- Consideration of air, noise and smell levels in production units;
- Reduction of the use of chemicals and consideration of international, national and sector-based practices;
- Reduction of the use of water and environmentally-friendly management of wastewater.

In 2017, new project of recycling hangers was launched, during which in Baltika's brand stores – in Monton, Mosaic, Bastion, Ivo Nikkolo and in Baltman – no more hangers will be given for free, to reduce consumption of plastic products in Baltic States. As the Baltika Group cares for the clothes to last for a long time, it is possible for client to buy hanger to go with bought items for symbolic price in case of client does not have suitable hangers. Especially, it is important to hold suit on proper hanger – including the time of transporting from store to home, therefore hanger will be given with product to maintain the perfect form. If client already have enough hangers to store clothes, then it is possible to give up hanger or return it on the next visit to store.

Production and supply chain management

Baltika regards it as the company's mission to maintain the heritage of the Estonian clothing industry and contribute to its development. Most of Baltika's production takes place in Estonia, thus ensuring complete transparency of half of the supply chain. Local production is a growing trend in the world's fashion industry, because in addition to the flexibility and speed of production, it also enables to directly manage social and environmental impacts. The rest of production takes place in the Far East, Turkey and Europe (Latvia, Lithuania, Italy).

Baltika is demanding when it comes to suppliers – the company values accountability, personal feedback, strategic and long-term cooperation. In order to ensure responsible production, employees at Baltika conduct audits at least once a year among all existing and potential new cooperation partners. The company has created detailed questionnaires for evaluating the partner's conformity. For example, it enquires about the management of liquid waste and wastewater, and whether the management of other production waste is arranged in a secure and

accountable manner. In addition to the audit carried out by Baltika, many partners have implemented environment management systems and/or quality certificates (e.g. Oekotex).

Photo: Baltika production and logistics centres in Tallinn, Estonia

Products and quality

The quality of products is very important for Baltika. A high-quality garment has a longer life span and allows for re-use, which is a crucial environmental factor in the clothes industry. Baltika has a separate quality department, and the company has developed a thorough quality control process. For example, a part of this process is test-wearing of the products to analyse their fit and durability. Quality control is performed on new fabrics as well as products arriving at stores. In year 2017 control was increased over suppliers' material technical documents that allows to eliminate fabrics not meeting quality expectation in early stages of product creation.

Baltika Group is constantly working towards ensuring that clients find their clothes a great fit and of high quality. Therefore, the company has established specific indicators to measure the level of quality, and the amount of defective products. Thus, the amount of defective products is measured at three levels:

1. At Baltika warehouse by the quality department.
2. At Baltika stores by employees (defects sustained during transport or handling in the store).
3. Amount returned by clients.

One of such quality indicators is, for example, the percentage of customer returns out of the retails sales volume – this figure should remain below 0.2%. In 2016 and in 2017 in retail the figure remained within given range.

Eco-innovative solutions used by the group include usage of digital prints, which saves water and reduces pollution. With premium brands, the group has tested a number of innovative fabrics and solutions. For instance, Baltman uses a specific radiation proof fabric in order to reduce the negative impact of mobile phones carried in the breast pocket.

Since materials of animal origin are also used in collections, the Supplier Manual regulates the issue of treatment of animals. The main principles are:

- Cruel treatment of animals is forbidden;
- Skin must not be removed from a live animal;
- Feathers must not be plucked from live birds;
- Wool or fur is sheared, not plucked from a live animal together with skin;
- No products must be sourced from endangered species.

Use of materials and resources

Baltika Group values managing environmental impacts and is guided by the sustainable manners in its activities.

Baltika Group follows a sustainable way of thinking and recycling trends in developing its store concepts and setting up stores. Therefore, reuse of different materials and furniture items carries an important role in retail concepts. Technical and lighting solutions are designed following the principle of energy efficiency. In this area, the group cooperates with industry leaders and includes their expertise in new developments.

Baltika Group uses a considerable amount of old furniture in developing store concepts and creating store environments, and contributes to its renovation and restoration. Several stores feature pieces of furniture found in a poor state and then restored, for example turning machines and chairs from the 19th century Estonian households and soft furniture from the 20th century, which has been used in creating new store concepts and through that given a new life and function.

To reduce negative environmental impact during the stores renovation and choosing materials before the renovation of each store, a renovation audit is conducted. During the audit the investment needs in new furniture and technical equipment are determined, also, an inventory is conducted to determine the opportunities for using existing technical equipment or furniture.

A sustainable mind-set is also maintained in the areas of product transport and choice of packaging materials for client purchases. For example:

- Baltika Group does not usually purchase transport packages itself, but reuses packing cases brought to the company by suppliers instead. For suppliers, the guidelines regarding packages are described in the Supplier Manual;
- Cardboard packages are returned to the central warehouse from Baltika Group stores, where they are reused for packaging and transporting products. Film materials used for product transport are collected and utilised by department stores;
- Products purchased by clients are packaged in both paper and plastic bags. In 2017, two out of five brands used paper bags. The goal in 2018 is to start using recycled paper bags in the stores of the Monton brand, which is the largest brand in the group;
- As the new initiative, Baltika Group's stores do not give hangers to go with bought clothes anymore, instead hangers are sent for recycling, that way reducing consumption of plastic products;
- To reduce negative environmental impact from marketing materials the goal in 2018 is to introduce a change in large advertising campaigns and switch from plastic materials to digital solutions.

In addition to furniture and package material reuse the efficient usage of stock excess and existing materials is important as well. Thus, Group has a precise material computation and overview of inventories: when possible, the usage of existing materials is preferred to purchasing new fabrics and the group also actively cooperates with small enterprises, schools, kindergartens and craftsmen to ensure that textile waste and surplus clothes are efficiently re-used. For example:

- Surplus ready-made clothes (final remaining items of collections) are donated;
- Clothes produced by Baltika Group and returned by customers to the Fashion Street are donated to young Estonian designers who will reprocess them;
- Fabric samples are distributed to art schools and kindergartens.

CORRUPTION

In Baltika Group, the topic of corruption is regulated by Baltika Group's Rules of Procedure. The Rules of Procedure regulate areas such as misuse of internal information, the concept of insiders and obligations extended to them, questions related to maintaining and managing business, service and production secrets.

- **In 2017 there were no registered corruption cases, fair trade or ethics or any other similar violation in Baltika Group.**

BALTIKA SHARE

Baltika's share has been listed on the Nasdaq Tallinn Stock Exchange since 5 June 1997. Nasdaq Tallinn Stock Exchange is a member of the world's largest exchange company NASDAQ. NASDAQ was established at the beginning of 2008 when NASDAQ Stock Market completed its merger with the Baltic and Nordic exchange company OMX. Stock Exchange Company delivers trading, exchange technology and public company services in 50 countries and to over 3,800 companies.

Baltika's share does not have an official market maker. The rules enforced in 2005 require newly listed companies to sign a relevant agreement for a certain period. For shares that have been listed for a longer time, it has not been necessary to enter into or extend such agreements.

Shares

AS Baltika has 40,794,850 ordinary shares. Nominal value of share is 0.2 euros per share and no changes to nominal value per share took place in 2017.

Ordinary shares

Baltika's ordinary shares are listed on the NASDAQ Tallinn Stock Exchange and carry equal voting and dividend rights. In the text below (the key share data, share price and trading figures, shareholder structure), any reference to AS Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

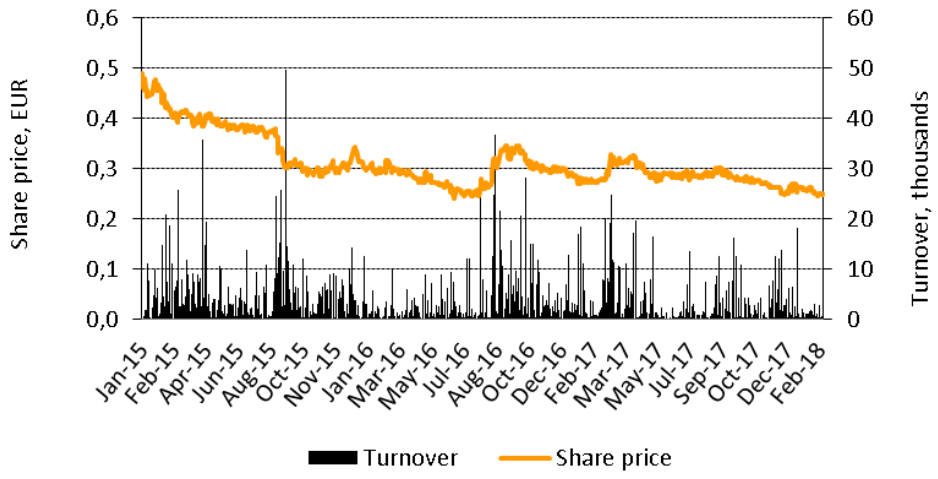
Information on listed ordinary shares

NASDAQ symbol: BLT1T
ISIN number: EE3100003609
Minimum number of shares to trade: 1
Number of shares: 40,794,850
Nominal value of a share: 0.2 euros
Votes per share: 1

Share price and trading

In 2017 the price of the Baltika share decreased by 10% to 0.255 euros, the Group's year-end market capitalisation was 10.4 million euros. During the same period, the OMX Tallinn All-Share Index increased by 16%.

Share price and turnover



Share trading history

EUR	2013	2014	2015	2016	2017
High	0.95	0.629	0.49	0.35	0.33
Low	0.52	0.41	0.29	0.24	0.25
Average	0.74	0.49	0.36	0.29	0.29
Year-end price	0.547	0.462	0.34	0.28	0.25
Change, %	-5%	-16%	-26%	-18%	-10%
Traded volume	4,569,595	2,249,732	3 153 469	2,580,854	2,607,312
Turnover, in millions	3.38	1.16	1.12	0.77	0.75

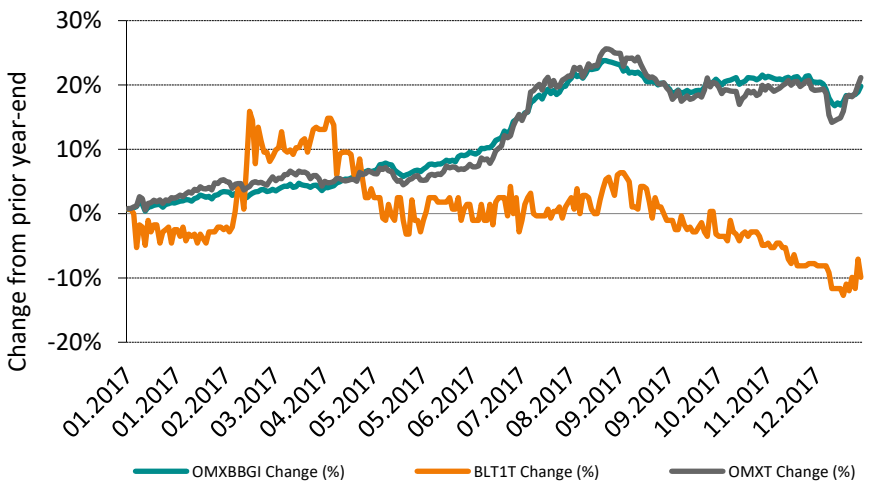
Indices

The Nordic and Baltic exchanges of NASDAQ use the same index structure. The NASDAQ OMX Baltic index family comprises the All Share Index, the Tradable Index, the Benchmark Index, and sector indices. The indices are calculated in euros as price (PI) and/or gross (GI) indices. All indices are chain-linked, meaning that they are calculated based on the price level of the previous trading day. All Baltic equity indices, except sector indices, have a base value of 100 and a base date of 31 December 1999. The sector indices have base value of 1000 and base date of 30 June 2011. The base date for OMX Tallinn is 3 June 1996.

As of March 2018 Baltika share was part of the following all share indexes:

Index	Description	Type	Short name
OMX Tallinn GI	OMX Tallinn all share index	Gross index	OMXT
OMX Baltic GI	Baltic all share index	Gross index	OMXBGI

Yearly changes of Baltika share and gross indexes



Shareholders structure

At the end of 2017, AS Baltika had 1,755 shareholders. The number of shareholders have not changed during a year.

The largest shareholder of AS Baltika is KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account), which owned 38.9% of ordinary shares as at the end of 2017. The full list of shareholders is available on the website of the Estonian Central Securities Depository (www.e-register.ee).

Largest shareholders as at 31 December 2017

	Number of shares	Holding
ING Luxembourg S.A. client	15,870,914	38.90%
Clearstream Banking Luxembourg S.A. clients	7,295,220	17.88%
Skandinaviska Enskilda Banken Ab clients	3,407,305	8.35%
Meelis Milder	1,000,346	2.45%
Svenska Handelsbanken clients	1,000,000	2.45%
AS Genteel	977,837	2.40%
Luksusjaht AS	900,237	2.21%
AB SEB Bankas clients	610,423	1.50%
OÜ Foonprojekt	458,304	1.12%
Others	9,274,264	22.74%
Total	**40,794,850**	**100%**

Largest shareholders are international investment funds and other legal entities who own approximately 81% of the shares. Individuals hold approximately 19% of the shares.

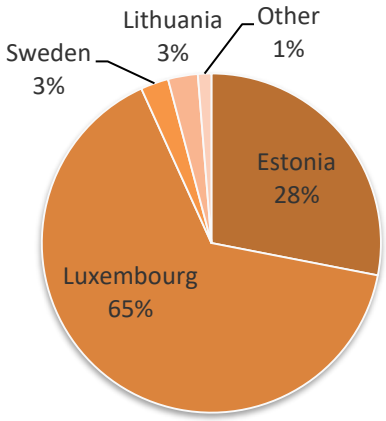
Shareholder structure by shareholder type as at 31 December 2017

	Number of shares	Holding
Management Board members, close family members and entities under their control	1,220,429	2.99%
Legal persons	32,910,133	80.67%
Individuals	6,664,288	16.34%
Total	**40,794,850**	**100%**

Shareholder structure by size of holding as at 31 December 2017

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	2	0.11%	23,166,134	56.78%
1.0 – 10.0%	8	0.46%	8,786,455	21.54%
0.1 – 1.0%	38	2.17%	3,809,456	9.34%
< 0.1%	1,707	97.26%	5,032,805	12.34%
Total	**1,755**	**100%**	**40,794,850**	**100%**

Shareholder structure by country at 31 December 2017



Share capital

As at 31 December 2017 Baltika had 40,794,850 shares with nominal value of 0.2 euros per share.

According to the Articles of Association, AS Baltika maximum share capital is 20 million euros.

Changes in share capital

Date	Issue type	Issue price, EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31/12/2011				**35,794,850**	**25,057**	**89**
11/05/0212	Decrease of share nominal value				-17,898	-89
31/12/2012				**35,794,850**	**7,159**	**63**
16/07/2013	Conversion of H-bonds to shares	0.3	5,000,000	**40,794,850**	1,000	496
31/12/2013				**40,794,850**	**8,159**	**684**
31/12/2014				**40,794,850**	**8,159**	**809**
31/12/2015				**40,794,850**	**8,159**	**496**
31/12/2016				**40,794,850**	**8,159**	**496**
31/12/2017				**40,794,850**	**8,159**	**496**

Dividendid

According to Baltika Group dividend policy no dividends will be paid until Group has a strong financial position and adequate investment ability. One indicator of strong financial position is when the capital to net gearing ratio is under 50% and availability of sufficient funds (cash and cash equivalents minus overdraft and short term borrowings is over 1% of total number of shares). In addition the actual dividend pay-out ratio will be determined based on the Group's cash flows, development prospects and funding needs.

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

The Group ended 2017 with a consolidated net profit of 0.1 million euros. The Management Board of Baltika proposes that this year no dividends be distributed to the holders of ordinary shares. In previous year, the company did not distribute any dividends either.

For dividend history and ratios, please refer to the Key share data table.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Code (CGC) of Nasdaq Tallinn Stock Exchange is a set of rules and principles, which is designed mainly for listed companies. Since the provisions of CGC are recommendations by nature, the company need not follow all of them. However, where the company does not comply, it has to provide an explanation in its corporate governance report. The "comply or explain" approach has been mandatory for listed companies since 1 January 2006.

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of Nasdaq Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, corporate governance report contains information on the annual General Meeting taken place in 2017, the Supervisory Board, the Management Board and explains Baltika's governance structure and processes.

CGC Article 1.3.2.

Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

The General Meeting took place on May 8, 2017, which was attended by Meelis Milder, Chairman of the Management Board, Maigi Pärnik-Pernik, member of the Management Board and certified auditor Eva Jansen-Diener and certified auditor in charge Tiit Raimla from AS PricewaterhouseCoopers, who has been auditing AS Baltika. Jaakko Sakari Mikael Salmelin, Chairman of the Supervisory Board participated the meeting, also Reet Saks, member of the Supervisory Board attended and led the meeting.

CGC Article 1.3.3.

Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.

Since AS Baltika does not have the required technical equipment that would allow secure identification of the shareholders, observation of the General Meeting and participation thereof is not possible by means of communication equipment. Since the majority of the AS Baltika shareholders are overseas' residents, providing secure identification of the participants would be too cost prohibitive.

CGC Article 1.3.4.

Profit distribution shall be considered in General Meeting as a separate agenda item and a separate resolution shall be passed regarding it.

At AS Baltika General Meeting held on May 8, 2017 the profit distribution was discussed and decided as a separate item on the agenda.

CGC Article 2.2.7.

Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, AS Baltika does not disclose the remuneration

and benefits provided to each member of the Management Board. However, AS Baltika discloses the total amount of remuneration expense to members of the Supervisory Board and Management Board in the management report section of its interim and annual reports. In 2017, the figure amounted to 0.3 million euros. The contractual severance benefits of members of the Management Board range from 3 to 18 fold monthly remuneration depending on the period of service.

Baltika Group's employees are eligible to performance pay, which in case of markets is based on the fulfilment of profit target of profit centres, in case of Baltika head-office employees, it is based on the fulfilment of Baltika Group profit targets. From 2016 the chairman´s and members´ of the Management Board performance pay is based on the fulfilment or exceeding of EBITDA target and can be 0-10 months monthly salary accordingly. Baltika Group can pay up to 50% of the expected bonus amounts in advance during the year; the final amount is calculated and paid out after the financial statements have been audited. The bonus of the chairman of the Management Board/CEO is determined by the Supervisory Board. The bonuses of members of the Management Board are determined by the chairman of the Supervisory Board based on the proposal made by the chairman of the Management Board. Baltika Group discloses the total amount of remuneration expense to the members of the Management Board in Note 26 of the Annual Report.

Members of the Management Board can receive one funded pension contribution of up to one month's salary per year, provided after they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the Baltika Group's internal rules. Share option program that was approved on 27 April 2015 Annual General Meeting of Shareholders was issued to members of the Management Board.

CGC Article 3.2.5.

The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).

Annual General Meeting of shareholders decided on 27 April 2015 the emoluments of the members of the Supervisory Board. The remuneration of the chairman of the Supervisory Board amounts to 650 euros per month and the remuneration of a member of the Supervisory Board to 400 euros per month. A member of the Supervisory Board is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions.

In 2017 nor 2016 no conflicts of interests occurred.

CGC Article 5.6.

The issuer shall disclose the dates and places of meetings with analysts, and presentations and press conferences organized for analysts, investors or institutional investors on its website. The issuer shall enable shareholders to attend the above meetings and shall make the texts of the presentations available on its website.

In accordance with the rules of the Nasdaq Tallinn Stock Exchange, AS Baltika first discloses all material and price sensitive information through the stock exchange system. The information disseminated at meetings and press conferences is limited to previously disclosed data. All information that has been made public, including presentations made at meetings, is available on the Baltika Group's website (www.baltikagroup.com).

On AS Baltika website http://www.baltikagroup.com/faq/ new Q&A webpage is available to all stakeholders, through which all may ask questions and get information about the company's activities between quarterly reports. The questions received and the answers of AS Baltika will be published on AS Baltika's Q&A page in order to allow everyone equal and prompt access to Baltika's strategy, activities, business plan and other information.

As a rule, the issuer cannot enable other shareholders to attend the meetings held with institutional investors and analysts. To ensure the objectivity and unbiased nature of the meetings, institutional investors observe internal rules which do not allow third parties to attend such meetings.

Shareholders can participate in web seminars organized by AS Baltika. In 2017, one web seminar took place, AS Baltika introduced the results of the second quarter of 2017 on August 10th 2017.

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with AS Baltika's Articles of Association, the auditor(s) is (are) appointed by the General Meeting of shareholders for the performance of a single audit or for a specific term. The Annual General Meeting which convened on 8 May 2017, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2017-2019. Independent Auditor's Report of 2017 will be signed by certified auditor in charge Tiit Raimla. The audit firm is chosen based on the received offer with the best quality-price ratio –the auditor's independence is ensured by following rotation rules applicable to listed entities in EU.

The audit fee is fixed in an agreement which is concluded by the Management Board. In the notice of the Annual General Meeting, AS Baltika publishes the information required by the Commercial Code (Section 294 Subsection 4) that does not include the auditor's fee. AS Baltika does not disclose the auditor's fee because the disclosure of such sensitive information would impair the competitive position of the audit firm (CGC Article 6.2.1.).

Under the law, the agreement entered into by an audit firm is governed by International Standards on Auditing, the Auditors Activities Act and the risk management policies of the audit firm that do not require the auditor to submit a memorandum on the issuer's non-compliance with the Corporate Governance Code. Accordingly, the agreement signed between AS Baltika and its audit firm does not include a corresponding article and the auditor does not submit such a memorandum (CGC Article 6.2.4.).

Subsection §24² (4) of the Accounting Act

A large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

AS Baltika has not deemed it necessary to implement a diversity policy, as AS Baltika always considers the best interest of Baltika in the recruitment of staff and management members and therefore makes the decisions based on the education, skills and previous experience of the person on a gender neutral and non-discriminatory basis.

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

Baltika is a public limited company, whose governing bodies are the shareholders' General Meeting, the Supervisory Board and the Management Board.

General meeting

The general meeting is AS Baltika's highest governing body. General meetings may be annual or extraordinary. The Annual General Meeting convenes once a year within six months after the end of the Baltika's financial year. An extraordinary General Meeting is called by the Management Board when the Baltika's net assets based on audited results have declined below the level required by the law and there is over 2 months to annual General Meeting of shareholders or when calling of a meeting is demanded by the Supervisory Board, the auditor, or shareholders whose voting power represents at least one tenth of the Baltika's share capital. A General Meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a General Meeting is determined at 8 a.m. at the date of the General Meeting.

The Annual General meeting of 2017 was held on 8 May at 24 Veerenni in Tallinn, Estonia. A total of 24,010,722 shares were represented i.e. 58.86% of the voting stock. In accordance with good practise the shareholders had the possibility to ask questions in addition to Management Board members also from the auditor. The meeting approved the company's annual report, profit allocation proposal for 2016, decided issuance of convertible bonds and appointed the auditor and its fee.

Shareholders with significant share of Baltika's ordinary shares at the end of 2017 were KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account) (38.90%) and Clearstream Banking Luxembourg S.A clients (17.88%).

No shareholders have shares that grant them a right for specific control. AS Baltika is unaware of any shareholders having concluded any voting agreements.

Supervisory Board

The Supervisory Board plans the activities of AS Baltika, organises the management and supervises the activities of the Management Board. The Supervisory Board meets according to the need but not less frequently than once every three months. A meeting of the Supervisory Board has a quorum when more than half of the members participate. A resolution of the Supervisory Board is adopted when more than half of the members of the Supervisory Board who participate in the meeting vote in favour. Each member of the Supervisory Board has one vote. There were 7 meetings of the Supervisory Board and Supervisory Board members attended most of the meetings in 2017.

According to the Articles of Association, AS Baltika's Supervisory Board has three to seven members. The members are elected by the general meeting for a period of three years.

Annual General Meeting of shareholders on 27 April 2015 elected Supervisory Board composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin and Valdo Kalm. The Supervisory Board meeting on 13 May 2015 elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Board.

Jaakko Sakari Mikael Salmelin is a partner of KJK Capital Oy; he has managed various Eastern European funds focusing mainly on the Baltic and Balkan markets. Tiina Mõis is the director of the investment firm AS Genteel and a member of the councils of AS LHV Pank and AS LHV Group. Reet Saks is an attorney with Law Office Raidla Ellex, a long-term partner of Baltika. Reet Saks has been a member of Baltika's Supervisory Board since 1997. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a chairman or member of the Supervisory Boards of several Baltic and Finnish companies and he has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic countries. Valdo Kalm is the chairman of AS Tallinna Sadam Management Board and has from previous long-term work experience specialised knowledge in technology and telecommunications industry.

Two Boards members own AS Baltika's shares: Tiina Mõis owns 977,837 ordinary shares i.e. 2.4% of share capital through the company under her control and Lauri Kustaa Äimä 24,590 ordinary shares i.e. 0.1% as at the end of 2017.

In addition to those indicated in related party disclosure in the financial statements, Supervisory Board members did not have any investments above 5% that is a business partner of Baltika Group.

Three out of the five members of Baltika's Supervisory Board were independent. The dependent members are Reet Saks and Tiina Mõis who have been the members of Baltika's Supervisory Board for more than ten years.

Audit Committee

AS Baltika has an audit committee, with rules of procedure approved by Supervisory Board. The audit committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, and the external audit of the consolidated financial statements. The committee is also responsible for making recommendations in relation to the above issues to prevent or eliminate problems and inefficiencies.

The audit committee reports to the Supervisory Board and its members are appointed and removed by the Supervisory Board. The committee has two to five members whose term of office is three years. The members of the audit committee are not remunerated for serving on the committee. AS Baltika's audit committee is chaired by Reet Saks. Members of the committee are Tiina Mõis and Jaakko Sakari Mikael Salmelin.

In 2017 the audit committee gathered one time. The committee met in December with the representatives of the audit firm AS PricewaterhouseCoopers to obtain overview of the observations made during 2017 audit interim work.

Information in public interest entities Management report regarding services from auditor

During 2017, the auditor of the Company has not provided to the Group any services.

Management Board

The Management Board is a governing body, which represents and manages AS Baltika in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. The members of the Management Board elect a chairman from among themselves who organises the activities of the Management Board. Every member of the Management Board may represent the company in all legal acts.

To ensure effective and efficient risk management and internal control, the Management Board:

- Analyses the risks related to its business and financial targets;
- Prepares relevant internal rules and regulations;
- Develops forms and instructions for the preparation of financial statements required for making management decisions;
- Ensures operation of the control and reporting systems.

The Management Board does its best to ensure that the Group's parent company and all entities belonging to the Group comply with governing laws and regulations.

According to the Articles of Association, AS Baltika's Management Board may have two to five members who are elected by the Supervisory Board for a period of three years. The supervisory Board may also remove a member of the Management Board.

Amendments of the Articles of Association are made according to Commercial Code, which says that resolution on amendment of the articles of association shall be adopted if at least two-thirds of the votes of the shareholders who participate in the meeting are in favour. A resolution on amendment of the articles of association shall enter into force as of the making of a corresponding entry in the commercial register.

AS Baltika's management board has two members: Chairman Meelis Milder and Maigi Pärnik-Pernik.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik is the CFO.

On 29 May 2017, the Supervisory Board of AS Baltika appointed Ingrid Kormik as additional member of AS Baltika Management Board. Ingrid Kormik 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 (maiden name Kormik) from the Management Board starting from 18th of December 2017. After the resignation of Head of Purchasing and Supply Chain Ingrid Uibukant in December 2017, Management Member Maigi Pärnik-Pernik is responsible of entire division of Purchasing and Supply Chain.

Management Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika Group.

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

Shareholdings of members of the Management Board at 31 December 2017

	No of shares	Holding
Meelis Milder	1,000,346	2.45%
Immediate family members of Management Board members	220,083	0.54%
Total OÜ BMIG and Management Board members	**1,220,429**	**2.99%**
AS Baltika share capital	**40,794,850**	**100%**

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2017 consolidated financial statements as presented on pages 54 to 101.

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 present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
3. the Group is going concern.

Meelis Milder
Chairman of the Management Board
22 March 2018

Maigi Pärnik-Pernik
Member of the Management Board
22 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents	4	704	419
Trade and other receivables	5	2,055	1,956
Inventories	6	10,499	11,096
Total current assets		**13,258**	**13,471**
Non-current assets			
Deferred income tax asset	7	189	228
Other non-current assets	8	487	522
Property, plant and equipment	9	2,395	3,022
Intangible assets	10	1,513	1,676
Total non-current assets		**4,584**	**5,448**
TOTAL ASSETS		**17,842**	**18,919**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	1,309	5,835
Trade and other payables	13,14	5,984	6,923
Total current liabilities		**7,293**	**12,758**
Non-current liabilities			
Borrowings	12	5,363	1,196
Total non-current liabilities		**5,363**	**1,196**
TOTAL LIABILITIES		**12,656**	**13,954**
EQUITY			
Share capital at par value	15	8,159	8,159
Share premium		496	496
Reserves	15	1,345	1,182
Retained earnings		-4,872	-5,049
Net profit for the period		58	177
TOTAL EQUITY		**5,186**	**4,965**
TOTAL LIABILITIES AND EQUITY		**17,842**	**18,919**

The Notes presented on pages 59-101 are an integral part of these consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note	2017	2016
Revenue	16,17	47,459	46,993
Client bonus provision	17	16	23
Revenue after client bonus provision		47,475	47,016
Cost of goods sold	18	-23,805	-23,519
Gross profit		**23,670**	**23,497**
Distribution costs	19	-20,630	-20,336
Administrative and general expenses	20	-2,387	-2,504
Other operating income (-expense)	22	-35	44
Operating profit		**618**	**701**
Finance costs	23	-521	-519
Profit before income tax		**97**	**182**
Income tax expense		-39	-5
Net profit for the period		**58**	**177**
Total comprehensive income for the period		**58**	**177**
Basic earnings per share from net profit for the period, EUR	25	0.00	0.00
Diluted earnings per share from net profit for the period, EUR	25	0.00	0.00

The Notes presented on pages 59-101 are an integral part of these consolidated Financial Statements.

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CONSOLIDATED CASH FLOW STATEMENT

	Note	2017	2016
Cash flows from operating activities			
Operating profit		618	701
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	18,19,20	1,230	1,288
Profit/loss from disposals of PPE		27	15
Other non-monetary adjustments		166	2
Changes in working capital:			
Change in trade and other receivables	5,7,8	-64	-293
Change in inventories	6	597	-672
Change in trade and other payables	13	-633	-283
Interest paid and other financial expenses		-267	-305
Interest received		0	7
Net cash generated from operating activities		**1,674**	**460**
Cash flows from investing activities			
Acquisition of property, plant and equipment, intangibles	9,10	-420	-1,207
Proceeds from disposal of property, plant and equipment		7	50
Net cash used in investing activities		**-413**	**-1,157**
Cash flows from financing activities			
Proceeds from borrowings	12	500	1,500
Repayments of borrowings	12	-1,120	-807
Change in overdraft balance	12	-983	194
Repayments of finance lease	12	-201	-145
Repayment of convertible bonds	12	-35	-24
Proceeds from convertible bonds issuance	12	863	0
Net cash generated from (used in) financing activities		**-976**	**718**
Total cash flows		**285**	**21**
Cash and cash equivalents at the beginning of the period	4	419	398
Cash and cash equivalents at the end of the period	4	704	419
Net change in cash and cash equivalents		**285**	**21**

The Notes presented on pages 59-101 are an integral part of these consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Additional information on share capital and changes in equity is provided in Note 15.

The Notes presented on pages 59-101 are an integral part of these consolidated Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo. Baltika employs a vertically integrated business model, which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics, wholesale and retail. As at 31 December 2017, Group had 95 Baltika's retail-stores in four markets - in the Baltics and Finland; and 33 franchise partners´ stores in Spain, Ukraine, Belarus, Russia and Serbia. As at 31 December 2017 Baltika Group employed 1,026 people (31 December 2016: 1,049).

The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange that is part of the exchange group NASDAQ. The largest and the only shareholder holding more than 20% of shares (Note 15) of AS Baltika is KJK Fund Sicav-SIF (on ING Luxembourg S.A. account).

AS Baltika (the Parent company) (registration number: 10144415, address: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2017 was operating in Estonia, Latvia, Lithuania and Finland in retail markets and through franchise partners in Belarus, Spain, Ukraine, Russia and Serbia.

The consolidated financial statements prepared for the financial year ended at 31 December 2017 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group): OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, OÜ Baltika Retail, OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva (see Note 27 for group structure).

The Management Board of AS Baltika authorised these consolidated financial statements on 22 March 2018. Pursuant to the Commercial Code of the Republic of Estonia, the Annual Report is subject to approval by the Supervisory Board of the Parent company and the Annual General Meeting of shareholders.

Basis of preparation

The Group's 2017 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Adoption of New of Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 01.01.2017.

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group has disclosed required information according to the standard requirements in the Note 12.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that had a material impact to the Group.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group´s annual periods beginning on or after 1 January 2018, and which the Group has not early adopted.

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IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.·
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group assesses that there is no significant impact of application of the amendments to its financial statements as Group has no such instruments.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group assesses that there is no significant impact of application of the amendments to its financial statements as the Group´s main revenue comes from retail, wholesale and franchise sales to clients, in case of which no additional services are given.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the

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lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Group will adopt IFRS 16 from 1st of January 2019, therefore the decision regarding transition approach has not been made. Group has used existing contracts to evaluate the impact, but approximately 23% of currently valid contracts will terminate within year 2018 and aforementioned renewals will impact the adoption. The Group assesses based on existing contracts that the result of application of the amendments Group´s total assets in the balance sheet as at 01.01.2019 will increase approximately 13 million euros and liabilities will increase 13 million euros. Amendment will not have an influence on loan covenants and meeting the requirements.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a

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tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Principles of consolidation, accounting for business combinations and subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All subsidiaries have been consolidated in the Group's financial statements.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date on which control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

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Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the local currency. The functional currency of the Parent company and subsidiaries located in Baltics and Finland is euro. The consolidated financial statements have been prepared in euros.

Financial statements of foreign operations

The results and financial position of the foreign subsidiaries of the Group are translated into presentation currency as follows:

- Assets and liabilities are translated into euros at the closing rate at the date of the balance sheet;
- Income and expenses for statement of profit and loss are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate of the balance sheet date.

When a subsidiary is partially or wholly disposed through sale, liquidation, repayment of share capital or abandonment, the exchange differences deferred in equity are reclassified to profit or loss.

Foreign currency transactions and balances

During the year, all foreign currency transactions of the Group have been translated to functional currencies based on the foreign currency exchange rates of the applicable Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the applicable Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses, including arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognised in the statement of profit and loss as income or expenses of that period.

Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under "Other operating income (-expense)" (Note 22). Gains and losses arising from cash, cash equivalents and borrowings are recognised net method in "Finance Costs" (Note 23).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand as well as bank account balances, and term deposits with original maturities of three months or less. Bank overdrafts are shown under current or non-current borrowings (depending on the nature and term of the contract) in the statement of financial position. Cash and cash equivalents are measured at amortised cost.

Financial assets

The purchases and sales of financial assets are recognised at the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are classified into the following categories at initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments;
- Available-for-sale financial assets.

As at 31 December 2017 and 31 December 2016, the Group had no other classes of financial assets than those classified under the category of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method. This method is used for calculating interest income on the receivable in the following periods.

When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the statement of profit and loss within "Other operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other receivables are assessed based on their collectible amounts. The collection of each receivable is assessed separately, taking into consideration all known information on the solvency of the debtor. Doubtful receivables are written down in the statement of financial position to the collectible amount. Irrecoverable receivables are derecognised.

Receivables are generally included in current assets when they are due within 12 months after the balance sheet date. Such receivables whose due date is later than 12 months after the balance sheet date are reported as non-current assets.

Inventories

Inventories are recorded on the statement of financial position at cost, consisting of the purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their present location and condition.

Purchase costs include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour) and also a systematic allocation of fixed and variable production overheads (such as depreciation and maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management).

The FIFO method is used to account for the cost of inventories. Inventories are measured in the statement of financial position at the lower of acquisition/production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location.

An item of property, plant and equipment is subsequently stated at cost less any accumulated depreciation and any impairment losses. Subsequent expenditure incurred for an item of property, plant and equipment is recognised as a non-current asset when it is probable that the Group will derive future economic benefits from it and its cost can be measured reliably. The cost of reconstruction carried out on leased premises is depreciated over the shorter of the useful life of the asset and the lease term. Other maintenance and repair costs are expensed when incurred.

Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

- buildings and structures
  - -rental space-related assets 5-7 years;
  - -buildings 60 years;
- machinery and equipment 2-7 years;
- other fixtures 2-10 years

At each balance sheet date, the appropriateness of depreciation rates, methods and the residual value is assessed. When the residual value of the asset exceeds its carrying amount, the depreciation of the asset is ceased.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of profit and loss within "Other operating expenses". An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in statement of profit or loss under "Other operating income (expenses)".

Intangible assets (excluding goodwill)

An intangible asset is initially recognised at its acquisition cost, comprising its purchase price, any directly attributable expenditure on preparing the asset for its intended use and borrowing costs that relate to assets that take a substantial period of time to get ready for use. After initial recognition, an intangible asset is carried at its acquisition cost less any accumulated amortisation and impairment losses.

Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (5-50 years).

Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year,

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are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3-10 years).

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of non-controlling interest in the acquiree. Goodwill which arose in the acquisition of a business is recognised as an intangible asset in the consolidated financial statements. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is immediately recognised under "Other operating income".

At the transaction date, goodwill is recognised in the statement of financial position at its acquisition cost. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill is not amortised. Goodwill is allocated to CGUs (cash generating units) for the purpose of impairment testing.

At each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value (if it is lower than its carrying amount).

Impairment of non-current assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but are tested annually for impairment, by comparing their carrying amount with the recoverable amount.

Assets that are subject to amortisation and depreciation and assets with infinite useful life (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

Assets which were written down are reviewed on each balance sheet date to determine whether their recoverable value has arisen. The reversal of the impairment loss is recorded in the statement of profit and loss of the financial year as a reduction of the impairment losses. Impairment loss recognised for goodwill is not reversed.

Finance and operating leases

Leases, in the case, of which the lessor retains substantially all the risks and rewards of ownership, are classified as operating leases. Other leases are classified as finance leases.

The Group as the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the statement of profit and loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets

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leased under finance leases are depreciated similarly to acquired non-current assets whereas the depreciation period is the lower of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

Payments made under operating leases are charged to the statement of profit and loss on a straight-line basis over the lease term.

The future minimum lease payments under non-cancellable operating leases are calculated based on the non-cancellable periods of the leases taking into account the following criteria:

- Should the termination of the agreement require a mutual agreement, lease payments for the three-month period are taken into consideration;
- Should the termination of the agreement require an advance notice, lease payments due within the advance notice period are taken into consideration.

Payables to employees

Payables to employees contain the contractual right arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is to be paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability at the balance sheet date. In addition to the holiday pay, this liability also includes accrued social and unemployment taxes.

Provisions and contingent liabilities

Provisions for liabilities and charges resulting from restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Other obligations whose settlement is not probable or the amount of accompanying expenditure of which cannot be measured with sufficient reliability, but that in certain circumstances may become obligations, are disclosed as contingent liabilities in the notes to the financial statements.

Financial liabilities

All financial liabilities (trade payables, borrowings, bonds and other current and non-current borrowings) are initially recorded at the proceeds received, net of transaction costs incurred on trade date. The amortised cost of current liabilities normally equals their nominal value; therefore current liabilities are stated in the statement of financial position in their redemption value. Non-current liabilities are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

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A financial liability is classified as current when it is due within 12 months after the balance sheet date or the Group does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Offsetting

Financial assets and financial liabilities are offset only when there exists a legally enforceable right and these amounts are intended to be settled simultaneously or on a net basis.

Share capital

Ordinary shares are classified in equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity item "Share premium" or in case of absence of share premium as a reduction of the equity item "Retained earnings". Preference shares are classified in equity in case they meet the definition of equity instrument or if they form a compound financial instrument which includes a component that meets the definition of equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity by the equity instrument and as a reduction of the liability and equity in proportion by the compound financial instrument.

Compound financial instruments

Compound financial instruments issued by the Group can comprise of (i) convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value and (ii) preference shares which entitle the holder a guaranteed interest and subsequent conversion of the instrument into ordinary shares. Compound financial instruments are separated into liability and equity components based on the terms of the contract. On issuance of the compound financial instruments, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity. The carrying amount of the conversion option is not revalued in subsequent years. Transaction costs are apportioned between the liability and equity components of the compound financial instruments, based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Other reserves

Reserves, other than equity components of financial instruments, are set up in accordance with the resolution of the general meeting of shareholders and they can be used to offset losses from prior periods as well as to increase share capital. Payments shall not be made to shareholders from reserves.

Statutory reserve

In accordance with the Commercial Code, statutory reserve has been set up from annual net profit allocations. During each financial year, at least one-twentieth of the net profit should be transferred to reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Share-based payments

The fair value of services (work contribution) supplied by the employees to the Group in exchange for the shares is recognised as an expense in the statement of profit and loss and in share premium in equity during the vesting

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period (from the grant date of convertible bonds until the vesting date). The fair value of the services received is determined by reference to the fair value (market value) of equity instruments granted to the employees at the grant date. For the employee to receive the right to be able to convert the convertible bond into shares under the share-based payment agreement, there must be an existing employment relationship and therefore at each balance sheet date, the number of estimated convertible bonds expected to be vested is assessed and personnel expenses as well as share premium items are adjusted to reflect the change in the number of bonds expected to be converted. The amounts received for shares upon the conversion of a convertible bond less direct transaction costs is recognised in the items “Share capital” and “Share premium” in equity.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable, taking into consideration all discounts and concessions made. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer and the amount of revenue and costs incurred in respect of the transaction can be measured reliably.

Retail sales

Revenue from the sale of goods is recognised at the time of selling the goods to the customer at the retail store, generally for cash or by card payment. The sales price also includes fees for card transactions recognised as distribution costs. Past experience is used to estimate and provide for sales returns at the time of sale.

Wholesale, franchise and e-commerce

Revenue from the sale of goods is recognised when the risks and returns have been passed to the customer according to delivery terms. Past experience is used to estimate and provide for sales returns at the time of sale.

Other

Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method. Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. For further information see section “Interest income and expenses”. Dividend income is recognised when the right to receive payment is established.

Revenue from the sale of goods and services is included in the statement of profit and loss on line “Revenue”.

Client bonus provision

The Group operates a client loyalty programme: customers accumulate bonus-points from purchases made, which entitle them to discounts on future purchases. The provision for bonus-points is recognized on the moment of the initial sales transaction as a reduction of revenue and by recognizing related provision in the statement of financial position using estimates for probable redemption of bonus-points. Bonus-points expire after six months from the customer´s last purchase.

Interest income and expenses

Interest income/expenses have been recognised in the statement of profit and loss for all financial instruments that are measured at amortised cost using the effective interest rate method. The effective interest rate is a method for calculating the amortised cost of a financial asset or a financial liability or the method for allocating interest income/expenses to the respective period. The effective interest rate is the rate that discounts the expected future cash receipts/payments over the expected useful life of the financial asset or the financial liability to its carrying amount. In calculating the effective interest rate, the Group assesses all contractual terms of the financial instrument but does not consider future credit losses. All contractual major service fees paid or

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received between the parties that are an integral part of the effective interest rate, transaction costs and other additional taxes or deductions are used in the calculation. If a financial asset or a group of similar financial assets has been written down due to impairment, interest income is calculated on them using the same interest rate as was used for discounting the future estimated cash receipts in order to determine the impairment loss.

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the group and the amount of income can be measured reliably. When the receipt of interest is uncertain, interest income is recognised on a cash basis. Interest income is recognised in the line "Finance income".

Segment reporting

Business segments are components of the Group that engage in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Management Board of the Parent company AS Baltika.

Segment results include revenues and expenses directly attributable to the segment and the relevant part that can be allocated to the particular segment either from external or internal transactions. Segment assets and liabilities include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by Estonian entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax of 20/80 of the amount paid out as dividends. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are paid.

Corporate income tax in other countries

In accordance with the local income tax laws, the net profit of companies located in Latvia, Lithuania and Finland that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian company and its carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017.

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Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss.

Corporate income tax rates

	2017	2016
Latvia	15%	15%
Lithuania	15%	15%
Finland	20%	20%

Deferred income tax is provided using the liability method. Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. The main temporary differences arise from depreciation and tax loss carry-forwards. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares outstanding. Diluted earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares taking also into consideration the number of dilutive potential shares.

NOTE 2 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to estimates, Management uses certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include: assessment of net realizable value of inventories (Note 6, 18) and impairment testing of goodwill (Note 10).

Assessment of net realizable value of inventories (Note 6)

Upon valuation of inventories, the Management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 7,964 thousand euros as at 31 December 2017 and 8,545 thousand euros as at 31 December 2016). Upon assessment of net realizable value of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 1,914 thousand euros as at 31 December 2017 and 1,906 thousand euros as at 31 December 2016). Upon

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valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 97 thousand euros as at 31 December 2017 and 78 thousand euros as at 31 December 2016).

Impairment testing of goodwill (Note 10)

The Management has performed an impairment test for goodwill that arose on the acquisition of the subsidiary SIA Baltika Latvija and the subsidiary OÜ Baltika Tailor. Future expected cash flows based on the budgeted sales and production volumes respectively have been taken into consideration in determining the recoverable amount of the cash generating units (CGU). The future expected cash flows have been discounted using the expected rate of return in the particular market within the similar industry. If the recoverable amount of cash generating unit is lower than its carrying amount, an impairment loss is recognised. Impairment testing of goodwill refer to Note 10.

NOTE 3 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 for 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 2017 and 2016 all sales were made in euros. The Group's foreign exchange risk is related to purchases done and amounts owed in foreign currencies. The majority of raw materials used in production are acquired from the European Union and goods purchased for resale are acquired outside of the European Union. The main currencies used for purchases are EUR (euro) and USD (US dollar).

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

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

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

Balance-sheet date rates	
USD (US dollar)	13.77%

Foreign exchange risk arises only from trade payables (Note 13), as cash and cash equivalents (Note 4), trade receivables (Note 5), borrowings (Note 12) are in euro and thereof not open to foreign exchange risk.

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If the foreign exchange rates (USD) in relation to the euro as at 31 December 2017 had been up to 6% higher (lower), the impact on the net profit for the year would have been +/-65 thousand euros (2016: higher (lower) +/-81 thousand euros).

The assessment of foreign exchange rate sensitivity to the 2016 result was based on the assumptions that the reasonably possible fluctuations in USD/EUR does not exceed +/-7%.

Impact of the potential change in the currency exchange rates on the net profit/loss arising from the translation of monetary assets and liabilities

	Impact 2017	Impact 2016
Trade and other payables	-65	-81
Total	**-65**	**-81**

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 953 thousand euros at 31 December 2017 and 1,196 thousand euros at 31 December 2016 were subject to a floating 6 month interest rate based on Euribor (Note 12). 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 (31 December 2016: 0 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.

In 2017, the 6-month Euribor decreased from -0.220% at the beginning of the year to the year end -0.271%. In the beginning of 2018, Euribor has been continuing a small decline. Business analysts estimate that Euribor will not rise in 2018 enough to significantly affect the Group´s financial performance results.

If floating interest rates on the borrowings had been one percentage point higher in the reporting period with all other variables held constant, the post-tax profit for the year would have been 51 thousand euros (2016: 43 thousand euros post-tax profit lower) lower. If the floating interest rates had been 0.1 percentage point lower, the post-tax profit for the year would have been 2 thousand euros higher (2016: 4 thousand euros post-tax profit higher).

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.

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Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as 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 Baltic states and Finland.

Cash and cash equivalents at bank classified by credit rating[1]

	31 Dec 2017	31 Dec 2016
A	576	306
B	8	3
Total (Note 4)	**584**	**309**

[1]The credit rating applies on long-term deposits as published by Moody's Investor Service website.

Receivables

As at 31 December 2017 the maximum exposure to credit risk from trade receivables (Note 5) and other non-current assets (Note 8) amounted to 1,874 thousand euros (31 December 2016: 1,713 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 the liabilities and finance the Group's strategic goals on a regular basis using rolling cash forecasts.

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

Financial liabilities by maturity as at 31 December 2017

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 12)[2]	2,087	222	1,050	905	2,177
Finance lease liabilities (Note 12)	175	25	75	80	180
Convertible bonds (Note 12, 15)	4,410	0	0	4,994	4,994
Trade payables (Note 13)	2,994	2,936	58	0	2,994
Other financial liabilities (Note 13)	22	22	0	0	22
Total	**9,688**	**3,205**	**1,183**	**5,979**	**10,367**

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Financial liabilities by maturity as at 31 December 2016

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 12)[2]	3,685	303	2,504	1,110	3,917
Finance lease liabilities (Note 12)	346	51	151	155	357
Convertible bonds (Note 12, 15)	3,000	0	3,624	0	3,624
Trade payables (Note 13)	3,259	3,227	32	0	3,259
Other financial liabilities (Note 13)	30	30	0	0	30
Total	**10,320**	**3,611**	**6,311**	**1,265**	**11,187**

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

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

Net gearing ratio

	31 Dec 2017	31 Dec 2016
Total borrowings (Note 12)	6,672	7,031
Cash and cash equivalents (Note 4)	-704	-419
Net debt	5,968	6,612
Total equity	5,186	4,965
Net gearing ratio	**115%**	**133%**

Fair value

The Group estimates that the fair values of the financial assets (Notes 4-5, 8) and liabilities (Notes 12-14) 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 December 2017 and 31 December 2016.

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

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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.

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock exchange or some other active regulated market.
- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.
- Level 3: Financial instruments that are valued by assessment methods based on non-monitored inputs.

See more information about the carrying values of borrowings and about interest rates in Note 12.

NOTE 4 Cash and cash equivalents

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

All cash and cash equivalents are denominated in euros.

For additional information, see also Note 3.

NOTE 5 Trade and other receivables

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

[1]Other prepaid expenses include prepaid lease expense of the stores and insurance expenses, prepayment for information technology services and other expenses of similar nature.

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

31 December 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**

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

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

As at 31 December 2017, the Group has recorded an allowance for doubtful receivables of 170 thousand euros (31 December 2016: 332 thousand euros). The allowance is recorded for individual receivables that are estimated to be uncollectible. As at 31 December 2017, 155 thousand euros of the allowance reserve is related to overdue balances from Eastern European region (31 December 2016: 314 thousand euros related to not overdue balances from Eastern European region) and 15 thousand euros (31 December 2016: 18 thousand euros) is related to overdue balances from Baltic and other regions. The Group expects that the rest of the unimpaired not due and overdue balances will be recovered. Trade receivables allowance expense in 2017 was 0 thousand euros (2016: 18 thousand euros).

All trade and other receivables are denominated in euros.

For additional information, see also Note 3.

NOTE 6 Inventories

	31 Dec 2017	31 Dec 2016
Fabrics and accessories	1,914	1,906
Work-in-progress	97	78
Finished goods and goods purchased for resale	8,174	8,885
Allowance for impairment of finished goods and goods purchased for resale (Note 18)	-210	-340
Prepayments to suppliers	524	567
Total	**10,499**	**11,096**

In addition to the write-down of 210 thousand euros (2016: 340 thousand euros) to reduce inventories to net realizable value as seen above, the Group recognised 114 thousand euros during 2017 (2016: 162 thousand euros) as an expense for stock-take variances and inventory write offs. This was recognised in statement of profit and loss on line "Cost of goods sold".

For additional information, see also Note 2.

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NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2017

	Total
Deferred income tax asset	
On PPE and other tax base differences[1]	-56
On tax loss carry-forwards	245
Total	**189**
Deferred income tax asset, net, thereof	**189**
Non-current portion	189
Deferred income tax expense (Note 24)	**-39**

Deferred income tax as at 31 December 2016

	Total
Deferred income tax asset	
On PPE and other tax base differences[1]	-100
On tax loss carry-forwards	328
Total	**228**
Deferred income tax asset, net, thereof	**228**
Non-current portion	228
Deferred income tax expense (Note 24)	**-5**

[1]Income tax liability can be settled against deferred tax assets in one country/company, therefore a deferred tax asset is recognised.

The recovery of the deferred income tax asset arising from tax loss carry-forwards is dependent on future taxable profits of subsidiaries that have to exceed the existing losses to be carried forward. An analysis of expected future profits was carried out when preparing the financial statements. The presumption of profit is dependable on attainment of each respective company strategic goals. The deferred tax asset resulting from losses carried forward is recognised to the extent that the realisation of the related tax benefit through the future profits is probable.

The Group recognised all deferred income tax assets in the statement of financial position as at 31 December 2017 and 31 December 2016 in respect of losses and other tax base differences that can be carried forward against future taxable income. Losses and other tax base differences can be used either for 10 years in Finland or for unlimited period in Lithuania.

NOTE 8 Other non-current assets

	31 Dec 2017	31 Dec 2016
Non-current portion of lease prepayments[1]	276	276
Other long-term receivables[2]	211	246
Total other non-current assets	**487**	**522**

[1]Non-current portion of lease prepayments arise from lease agreements of the Group's retail subsidiaries.

[2]Other long term receivables are for the sale of property and assets and trademark MasCara.

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Credit risk arises from other long-term receivables (Note 3). The Group monitors continuously outstanding credit amount and the adherence to agreed dates. The payment schedules and interest rates related to the receivable from the sale of Mascara trademark were renegotiated and amendment to previous agreement was signed in 2017. All payments have been made according to the contractual schedule.

NOTE 9 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments	Total
31 December 2015					
Acquisition cost	**2,452**	**4,736**	**4,491**	**1**	**11,680**
Accumulated depreciation	-1,545	-4,269	-2,956	0	-8,770
Net book amount	**907**	**467**	**1,535**	**1**	**2,910**
Additions	544	91	589	0	1,224
Disposals, impairments	-20	0	-87	0	-107
Depreciation (Note 18-20)	-339	-151	-514	0	-1,004
Reclassifications	0	1	-1	-1	-1
31 December 2016					
Acquisition cost	**2,838**	**4,718**	**4,813**	**0**	**12,369**
Accumulated depreciation	-1,746	-4,310	-3,291	0	-9,347
Net book amount	**1,092**	**408**	**1,522**	**0**	**3,022**
Additions	176	83	238	0	497
Disposals, impairments	-17	-1	-50	0	-68
Depreciation (Note 18-20)	-390	-119	-547	0	-1,056
Acquisition cost	**2,925**	**4,743**	**4,878**	**0**	**12,546**
Accumulated depreciation	-2,064	-4,372	-3,715	0	-10,151
Net book amount	**861**	**371**	**1,163**	**0**	**2,395**

Details of assets acquired under finance lease terms are shown in Note 11.

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NOTE 10 Intangible assets

	Licenses, software and other	Trademarks	Goodwill	Total
31 December 2015				
Acquisition cost	**2,261**	**1,243**	**509**	**4,013**
Accumulated amortisation	-1,732	-337	0	-2,069
Net book amount	**529**	**906**	**509**	**1,944**
Additions	23	0	0	23
Disposals	-1	0	0	-1
Amortisation (Note 18-20)	-246	-44	0	-290
31 December 2016				
Acquisition cost	**2,092**	**1,243**	**509**	**3,844**
Accumulated amortisation	-1,787	-381	0	-2,168
Net book amount	**305**	**862**	**509**	**1,676**
Additions	16	0	0	16
Amortisation (Note 18-20)	-135	-44	0	-179
31 December 2017				
Acquisition cost	**2,107**	**1,243**	**509**	**3,859**
Accumulated amortisation	-1,921	-425	0	-2,346
Net book amount	**186**	**818**	**509**	**1,513**

Trademarks with a net book value of 818 thousand euros (31 December 2016: 862 thousand euros) include acquired trademarks – Bastion and Ivo Nikkolo. The remaining amortization periods for these trademarks are 45 and 9 years respectively.

Impairment tests for goodwill

The carrying value of goodwill as at 31 December 2017 in the amount of 509 thousand euros (31 December 2016: 509 thousand euros) is tested for impairment at each balance sheet date.

The carrying amount of goodwill applicable to CGUs (cash generating units) of Baltika Tailor OÜ and SIA Baltika Latvija was tested for impairment at 31 December 2017. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

	Baltika Tailor CGU		Baltika Latvija CGU	
Balance at 31 December	**2017**	**2016**	**2017**	**2016**
Carrying amount of goodwill	355	355	154	154
Growth in revenue[1]	2.6%	3.3%	2.5%	3.2%
Terminal growth rate[2]	2.0%	2.0%	2.0%	2.0%
Budgeted gross margin[3]	3.7%	3.9%	56.1%	57.0%
Discount rate[4]	11.0%	11.7%	9.9%	10.9%
Difference between recoverable and carrying amount	284	174	22,143	22,606

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[1]Management determined average annual growth in revenue for Baltika Tailor and sales efficiency per square metre for Baltika Latvija for the five-year period.
[2]Terminal growth rate used to extrapolate cash flows beyond the year 2022.
[3]Management determined the average gross margin based on the past performance and management's expectations for the future.
[4]Pre-tax discount rate applied to the cash flow projections (WACC). The change in discount rates results from changes in industry indicators for the specific region.

The growth rates used for projections have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the projected future years in the respective region. The weighted average cost of capital (WACC) used was pre-tax and reflects specific risks applicable to the specific market and industry sector.

The tests resulted in recoverable value exceeding the carrying amount of the cash generating unit and consequently no impairment losses have been recognised.

If the average annual growth in sales efficiency (sales per m2) were -5.5% for SIA Baltika Latvija the recoverable amount would have been equal to the carrying amount (31 December 2016: -6.0%). If the average annual growth in sales for Baltika Tailor were 2.4% (31 December 2016: 3.2%) the recoverable amount would have been equal to the carrying amount.

If the average annual gross profit margin was 40.1% and 3.3% for SIA Baltika Latvija and Baltika Tailor respectively the recoverable amount would have been equal to the carrying amount (31 December 2016: 39.0% and 3.6% respectively).

NOTE 11 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31 Dec 2017	31 Dec 2016
Up to 1 year	5,311	5,472
1-5 years	8,443	10,622
Over 5 years	146	0
Total	**13,900**	**16,094**

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

The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements which stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation. In 2017, operating lease costs amounted to 7,654 thousand euros (2016: 7,465 thousand euros) (Note 18-20).

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Finance lease – the Group as the lessee

	Machinery and equipment	Other fixtures	Total
At 31 December 2015			
Acquisition cost	**1,451**	**723**	**2,175**
Accumulated depreciation	-1,072	-256	-1,327
Net book amount	**380**	**467**	**847**
Additions	60	0	60
Disposals	0	-6	-6
Depreciation	-98	-107	-205
At 31 December 2016			
Acquisition cost	**1,509**	**603**	**2,111**
Accumulated depreciation	-1,167	-248	-1,415
Net book amount	**341**	**355**	**696**
Additions	0	44	44
Depreciation	-84	-111	-195
At 31 December 2017			
Acquisition cost	**1,508**	**635**	**2,143**
Accumulated depreciation	-1,252	-347	-1,599
Net book amount	**256**	**288**	**544**

Detailed information on minimum finance lease payments by maturity is disclosed in Note 3. The carrying amounts of finance lease liabilities at the balance sheet date are disclosed in Note 12.

In 2017, the Group settled finance lease payments in the amount of 201 thousand euros (2016: 145 thousand euros).

NOTE 12 Borrowings

	31 Dec 2017	31 Dec 2016
Current borrowings		
Current portion of long-term bank loan (Note 3)	575	1,019
Bank overdrafts (Note 3)	637	1,620
Current finance lease liabilities (Note 3)	97	196
Convertible bonds (Note 15, 3)	0	3,000
Total	**1,309**	**5,835**
Non-current borrowings		
Non-current bank loan (Note 3)	875	1,046
Non-current finance lease liabilities (Note 3)	78	150
Convertible bonds (Note 15, 3)	4,410	0
Total	**5,363**	**1,196**
Total borrowings	**6,672**	**7,031**

Borrowings are denominated in euros. Management estimates that the carrying amount of the Group´s financial liabilities does not significantly differ from their fair value (Note 3). During the reporting period, the Group made loan repayments for 1,120 thousand euros (2016: 807 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 499 thousand euros (2016: 472 thousand

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euros), including interest expense from borrowings or convertible bonds to related party (Note 15). Unused part of overdrafts was 3,363 thousand euros as at 31 December 2017 (31 December 2016: 2,380 thousand euros).

Finance lease is used for acquisition of cars, furniture and equipment for shops.

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 15.

Changes in 2016

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

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

Convertible bonds (K-bonds)

The parent entity issued 889 convertible bonds with 6% interest for 4,445 thousand euros on 16 August 2017. The bonds are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable after the end of the share subscription period. See more in Note 15. The convertible bonds are presented in the statement of financial position as follows:

	31.12.2017	31.12.2016
Nominal value of bonds issued	4,445	0
Other equity securities - value of conversion rights	-163	0
	4,282	**0**
Interest expense*	128	0
Non-current liability	**4,410**	**0**

* Interest expense is calculated by applying the effective interest rate of 8% to the liability component.

The initial fair value of the liability portion of the bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity and not subsequently remeasured.

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Interest carrying loans of the Group as at 31 December 2017

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month Eonia)	2,262	EURIBOR or EONIA +3.80%
K-Bonds (Note 26)*	4,445	6.00%
Total	**6,707**	

Interest carrying loans of the Group as at 31 December 2016

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month Eonia)	4,031	EURIBOR or EONIA +4.60%
J-Bonds (Note 26)	3,000	6.50%
Total	**7,031**	

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

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

- Limited disposal of assets;
- Limited rights for incurring additional liabilities;
- Limited rights for paying dividends and deciding to issue share capital.

The Group's collaterals for bank borrowings

As at 31 December 2017 and 31 December 2016 the bank borrowings were secured with following asset types:

- Commercial pledge to movables;
- Trademarks;
- Shares of the subsidiaries;
- Cash equivalents on the bank accounts.

As at 31 December 2017 carrying amount of assets pledged was 14,063 thousand euros, including inventories in amount of 10,499 thousand euros, property, plant and equipment in amount of 2,395 thousand euros, intangible assets in amount of 465 thousand euros and cash on the bank accounts 704 thousand euros.

As at 31 December 2016 carrying amount of assets pledged was 15,143 thousand euros, including inventories in amount of 11,096 thousand euros, property, plant and equipment in amount of 3,022 thousand euros, intangible assets in amount of 606 thousand euros and cash on the bank accounts 419 thousand euros.

As at 31 December 2017 and 31 December 2016, AS Baltika complied with the terms and conditions of the bank loan agreements.

For additional information, see also Note 3.

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Changes in liabilities arising from financing activities

	31.12.2016	Cash flows	New leases	Non-monetary settle-ments	Reclassi-fied to equity	Other	31.12.2017
Current portion of long-term bank loans	**1,019**	-1,120	0	0	0	676	**575**
Bank overdrafts	**1,620**	-983	0	0	0	0	**637**
Current finance lease liabilities	**196**	-201	0	0	0	102	**97**
Current portion of convertible bonds	**3,000**	-35	0	-2,965	0	0	**0**
Non-current bank loans	**1,046**	500	0	0	0	-671	**875**
Non-current finance lease liabilities	**150**	0	30	0	0	-102	**78**
Non-current portion of convertible bonds	**0**	863	0	3,582	-163	128	**4,410**
Total liabilities from financing activities	**7,031**	**-976**	**30**	**617**	**-163**	**133**	**6,672**

	31.12.2015	Cash flows	Other	31.12.2016
Current portion of long-term bank loans	**1,019**	-807	446	**1,019**
Bank overdrafts	**1,426**	194	0	**1,620**
Current finance lease liabilities	**179**	-145	162	**196**
Current portion of convertible bonds	**0**	0	3,000	**3,000**
Other current loans	**24**	-24	0	**0**
Non-current bank loans	**0**	1,500	-454	**1,046**
Non-current finance lease liabilities	**312**	0	-162	**150**
Non-current portion of convertible bonds	**3,000**	0	-3,000	**0**
Total liabilities from financing activities	**6,321**	**718**	**-8**	**7,031**

The Other column includes the effect of reclassification between current and non-current portion of bank loans, finance leases and convertible bonds due to the passage of time; the effect of capitalization and amortization of the loan transaction costs and accrued but not yet paid interest expense.

NOTE 13 Trade and other payables

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

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

Tax authorities are entitled to check the Group's tax accounting up to within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests

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and fines. The tax legislation of the countries the Group is operating which was enacted or substantively enacted at the end of the reporting period may be subject to varying interpretations. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the entities in the Group.

Trade payables and other accrued expenses in denominated currency

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

For additional information, see also Note 3.

NOTE 14 Provisions

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

Short description of the client bonus provision

The Group offers a customer loyalty programme "AndMore" to its retail (including web-shop) clients in the Baltic states and Finland.

"AndMore" motivates clients by allowing them to earn a future discount on purchases made today (bonus euros). Accumulated bonuses are valid for six months from the customer´s last purchase. The program's conditions are described in detail on the company´s website.

Used assumptions

In 2017 the Group reduced the client bonus provision by 16 thousand euros (2016: reduced by 23 thousand euros). The Group has used existing statistics that enable to characterize customers' usage of the bonus: earnings, usage and expiration.

The provision has been formed based on the earned, but not yet used bonuses and adjusted by the probability of expiration. Probability has been assessed based on existing customer behaviour statistics.

See also Note 17.

NOTE 15 Equity

Share capital

	31 Dec 2017	31 Dec 2016
Share capital	8,159	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.20	0.20

As at 31 December 2017 and 31 December 2016 shares comprise only ordinary shares, which are listed on the Nasdaq Tallinn.

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Change in the number of shares

	Number of shares
Number of shares 31 December 2016	**40,794,850**
Number of shares 31 December 2017	**40,794,850**

As at 31 December 2017 and 31 December 2016, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for.

Changes in share capital

Convertible bonds and share options

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

- K-bonds

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

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

- J-bonds

On 28 April 2014, the annual general meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 3 million euros. Decision was to issue 600 convertible bonds with the issuance price of 5,000 euros. The three-year convertible bonds carry an annual interest rate of 6.5% and give its owner the right to subscribe for 10,000 AS Baltika shares at 0.5 euros subscription price. No applications were received by 30 July 2017 to mark the shares; therefore, all proceeds were partly repaid and partly offset with the amounts to be paid for K-bonds.

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

- Share option program

On 27 April 2015, the Annual General Meeting of shareholders decided to conditionally increase share capital up to 1,000,000 registered shares with nominal value of 0.20 euro and subscription price of 0.20 euro related to share option program. If the Baltika share price increase conditions are fulfilled, AS Baltika members of the Management Board may mark the shares three years from the date when the share option agreement has been signed.

Reserves

	31 Dec 2017	31 Dec 2016
Statutory reserve	1,182	1,182
Other reserves	163	0

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Other reserves cover the equity component of the issued K-bonds. The liability component is reflected in financial liabilities. See more in Note 12.

Shareholders as at 31 December 2017

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

Shareholders as at 31 December 2016

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

*The investment company OÜ BMIG is under the control of the Management Board members of the Parent company

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 16 Segments

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

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

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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 segment	All other segments[1]	Total
2017			
Revenue (from external customers)	39,476	7,983	47,459
Segment profit[2]	6,401	1,615	8,016
Incl. depreciation and amortisation	-931	-48	-979
Inventories of segments	3,902	0	3,902
2016			
Revenue (from external customers)	39,678	7,315	46,993
Segment profit[2]	7,126	1,108	8,234
Incl. depreciation and amortisation	-859	-75	-934
Inventories of segments	4,392	0	4,392

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

[2]The segment profit is the segment operating profit, excluding other operating expenses and income.

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Reconciliation of segment operating profit to consolidated operating profit

	2017	2016
Total segment profit	8,016	8,234
Unallocated expenses:[1]		
Costs of goods sold and distribution costs	-4,976	-5,073
Administrative and general expenses	-2,387	-2,504
Other operating income (expenses), net	-35	44
Operating profit	**618**	**701**

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

Reconciliation of segment inventories to inventories on consolidated statement of financial position

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

Non-current assets (except for financial assets and deferred tax assets) by location of assets

	31 Dec 2017	31 Dec 2016
Retail	2,164	2,690
Wholesale	0	62
Assets in parent company and production company	1,744	1,946
Total	**3,908**	**4,698**

NOTE 17 Revenue and client bonus provision

	2017	2016
Sale of goods in retail channel	39,476	39,678
Sale of goods in wholesale and franchise channel	6,300	6,029
Sale of goods in e-commerce channel	1,468	1,063
Other sales	215	223
Total	**47,459**	**46,993**

Sales by geographical (client location) areas

	2017	2016
Estonia	21,154	20,487
Latvia	10,605	10,658
Lithuania	10,541	11,086
Russia	1,785	1,812
Ukraine	1,009	1,179
Germany	690	403
Austria	401	101
Serbia	384	0
Spain	301	403
Finland	244	602
Belarus	235	188
Other countries	110	74
Total	**47,459**	**46,993**

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Client bonus provision

The Group accrues for bonuses earned through the customer loyalty programme. To calculate the reserve, the Group estimated the potential amount of bonuses that will be used in the next reporting period out of the total earned but not yet used bonuses at year end.

The provision as of 31 December 2017 decreased by 16 thousand euros (31 December 2016 decreased by 23 thousand euros). For further information about the assumptions used to form a provision, see Note 14.

NOTE 18 Cost of goods sold

	2017	2016
Materials and supplies	19,158	19,012
Payroll costs in production	3,609	3,493
Operating lease expenses (Note 11)	687	677
Other production costs	399	405
Depreciation of assets used in production (Note 9)	82	92
Change in allowance for inventories (Note 6)	-130	-160
Total	**23,805**	**23,519**

NOTE 19 Distribution costs

	2017	2016
Payroll costs	9,216	9,165
Operating lease expenses (Note 11)	6,548	6,348
Advertising expenses	1,363	1,319
Depreciation and amortisation (Note 9, 10)	1,083	1,071
Fuel, heating and electricity costs	475	506
Municipal services and security expenses	344	344
Fees for card payments	235	241
Information technology expenses	183	180
Travel expenses	152	163
Consultation and management fees	136	121
Communication expenses	99	104
Other sales expenses[1]	796	774
Total	**20,630**	**20,336**

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

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NOTE 20 Administrative and general expenses

	2017	2016
Payroll costs	1,188	1,208
Operating lease expenses (Note 11)	419	440
Information technology expenses	194	216
Bank fees	136	153
Depreciation and amortisation (Note 9, 10)	65	125
Fuel, heating and electricity expenses	64	68
Management, juridical-, auditor´s and other consulting fees	82	58
Other administrative expenses[1]	239	236
Total	**2,387**	**2,504**

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

NOTE 21 Wages and salaries

	2017	2016
Payroll costs	10,638	10,540
Social security costs	3,375	3,326
Total	**14,013**	**13,866**

In 2017, the average number of employees in Baltika Group was 1,044 (2016: 1,073).

NOTE 22 Other operating income (-expense)

	2017	2016
Gain (loss) from sale, impairment of PPE and immaterial assets	-27	-15
Other operating income	84	90
Foreign exchange losses	-97	-35
Fines, penalties and tax interest	15	15
Other operating expenses	-10	-11
Total	**-35**	**44**

For additional information, see also Note 9, 10.

NOTE 23 Finance costs

	2017	2016
Interest costs	-499	-472
Other finance costs	-22	-47
Total	**-521**	**-519**

NOTE 24 Income tax

	2017	2016
Deferred income tax expense (Note 7)*	39	5
Total income tax expense	**39**	**5**

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* Due to the changes in Latvian Income Tax Act, tax assets recognized in the statement of financial position had to be transferred off the statement of financial position at 31.12.2017. This resulted in an extraordinary write-off of 110 thousand euros, which is included in the 39 thousand euro deferred income tax expense in 2017. These assets can still be used for offsetting income tax on dividends in future periods.

Income tax calculated on the profits of the Group's subsidiaries based on the nominal tax rate differs from effective income tax expense for the reasons presented below.

Income tax for the year ended at 31 December 2017

	Total
Profit before tax	97
Average nominal tax rate	0-20%
Tax calculated from profit (loss) at the nominal tax rate	2
The effect of income/expenses not deductible for tax purposes	-2
Utilisation of tax losses carried forward/additions of tax profits	0
Changes in recognised balance sheet deferred tax assets	39
Income tax expense	**0**
Deferred income tax expense (Note 7)	**39**

Income tax for the year ended at 31 December 2016

	Total
Profit before tax	182
Average nominal tax rate	0-15%
Tax calculated from profit (loss) at the nominal tax rate	5
The effect of income/expenses not deductible for tax purposes	-3
Utilisation of tax losses carried forward/additions of tax profits	-2
Changes in recognised balance sheet deferred tax assets	5
Income tax expense	**0**
Deferred income tax expense (Note 7)	**5**

NOTE 25 Earnings per share

Basic earnings per share

		2017	2016
Weighted average number of shares (thousand)	pcs	40,795	40,795
Net profit (thousands)	EUR	58	177
Basic earnings per share	**EUR**	**0.00**	**0.00**

Diluted earnings per share

Diluted earnings per share for the periods ended 31 December 2017 and 31 December 2016 are equal to basic earnings per share stated above. Diluted earnings per share is calculated by adjusting the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. In the periods ended 31 December 2017 and 31 December 2016, the Group had no dilutive potential ordinary shares.

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Instruments that could potentially dilute basic earnings per share (Note 15):

- J-bonds in 2016 and 2017,
- K-bonds in 2017,
- Share option program in 2016 and 2017.

The dilutive effect of the J-bonds and K-bonds was and is contingent on the share price. In 2017 and 2016, the Group assumed the J-bonds and K-bonds would not be converted into ordinary shares based on the average share price on Nasdaq Tallinn Stock exchange.

For the share option program, a calculation was done to determine the number of shares that could have been acquired at market value (average price of the company´s share) based on share issue price. The number of shares, calculated as described above, was compared with the number of shares that would have been issued assuming the exercise of the share options. As the dilutive effect is contingent on the share price, the share option program did not have a dilutive effect in 2017 and 2016.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in 2017 was 0.28 euros (2016: 0.29 euros).

NOTE 26 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 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 annual 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 15);
- members of the Management Board and the Supervisory Board[1];
- immediate family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Board and immediate family members;

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

Transactions with related parties

Purchases	2017	2016
Services from entities under the control of the members of the Management Board and Supervisory Board	24	24
Total	**24**	**24**

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

Balances with related parties

	31 Dec 2017	31 Dec 2016
Borrowings and interests (Note 12, 13)	3,681	2,973
Total	**3,681**	**2,973**

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

Compensation for the members of the Management Board and Supervisory Board

	2017	2016
Salaries of the members of the Management Board	261	253
Remuneration of the members of the Supervisory Board	14	14
Total	**275**	**267**

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

Changes in the Management Board in 2017

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

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

Changes in the Management Board in 2016

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

From March 17, 2016, the Supervisory Board of AS Baltika decided to recall Kati Kusmin from the Management Board, who was entitled to a termination compensation in accordance with agreement, which was disbursed in 2016.

The termination benefits for the members of the Management Board are limited to 3-18 month's salary expense (no taxes included) in the total amount that is approximately 234 thousand euros (2016: 234 thousand euros) in case of premature termination. During 2017, the Group did not pay any termination benefits (2016: 36 thousand euros).

During 2016 – 2017 no changes took place in the composition of Supervisory Board. No compensations for terminating Supervisory Board status were paid in 2016 - 2017.

Convertible bonds (J-bonds and K-bonds) are partly issued to related parties (Note 15).

In 2015 share option program was issued to the Management Board members (Note 15).

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NOTE 27 Subsidiaries

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

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

NOTE 28 Supplementary disclosures on the parent company of the Group

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

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Statement of financial position of the parent company

	31 Dec 2017	31 Dec 2016
ASSETS		
Current assets		
Cash and cash equivalents	177	12
Trade and other receivables	2,912	5,175
Inventories	6,673	6,946
Total current assets	**9,762**	**12,133**
Non-current assets		
Investments in subsidiaries	1,324	1,324
Other non-current receivables	211	246
Property, plant and equipment	172	224
Intangible assets	992	1,153
Total non-current assets	**2,699**	**2,947**
TOTAL ASSETS	**12,461**	**15,080**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	1,223	5,650
Trade and other payables	4,594	7,899
Total current liabilities	**5,817**	**13,549**
Non-current liabilities		
Borrowings	5,998	1,103
Total non-current liabilities	**5,998**	**1,103**
TOTAL LIABILITIES	**11,815**	**14,652**
EQUITY		
Share capital at par value	8,159	8,159
Share premium	496	496
Statutory reserve	1,345	1,182
Retained losses	-9,409	-9,601
Net profit for the period	55	192
TOTAL EQUITY	**646**	**428**
TOTAL LIABILITIES AND EQUITY	**12,461**	**15,080**

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Statement of comprehensive income of the parent company

	2017	2016
Revenue	31,898	32,828
Cost of goods sold	-23,443	-24,020
Gross profit	**8,455**	**8,808**
Distribution costs	-5,406	-5,501
Administrative and general expenses	-2,301	-2,416
Other operating income (-expense)	-4	60
Operating profit	**744**	**951**
Interest expenses, net	-689	-759
Net profit for the period	**55**	**192**
Total comprehensive income for the period	**55**	**192**

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Cash flow statement of the parent company

	2017	2016
Cash flows from operating activities		
Operating profit	744	951
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	216	335
Other non-monetary expenses	142	-26
Changes in trade and other receivables	-195	-527
Changes in trade and other payables	-445	-490
Changes in inventories	273	-581
Interest received	0	7
Interest paid	-435	-539
Net cash generated from (used in) operating activities	**300**	**-870**
Cash flows from investing activities		
Acquisition of non-current assets	-16	-49
Proceeds from disposal of non-current assets	0	24
Net cash used in investing activities	**-16**	**-25**
Cash flows from financing activities		
Proceeds from borrowings	1,167	1,500
Repayments of borrowings	-1,120	-807
Change in overdraft balance	-983	194
Repayments of finance lease	-11	-11
Repayment of convertible notes	-35	-24
Proceeds from convertible notes issuance	863	0
Net cash generated (used in) from financing activities	**-119**	**852**
Total cash flows	**165**	**-43**
Cash and cash equivalents at the beginning of the period	**12**	**55**
Cash and cash equivalents at the end of the period	**177**	**12**
Net change in cash and cash equivalents	**165**	**-43**

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Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2015	**8,159**	**496**	**1,182**	**-9,601**	**236**
Total comprehensive income	0	0	0	192	192
Balance at 31 December 2016	**8,159**	**496**	**1,182**	**-9,409**	**428**
Book value of holdings under control or significant influence					-1,324
Value of holdings under control or significant influence, calculated under equity method					6,289
Adjusted unconsolidated equity at 31 December 2016					**4,965**
Total comprehensive income	0	0	0	55	55
Value of conversion feature on convertible notes	0	0	163	0	163
Balance at 31 December 2017	**8,159**	**496**	**1,345**	**-9,354**	**646**
Book value of holdings under control or significant influence					-1,324
Value of holdings under control or significant influence, calculated under equity method					6,510
Adjusted unconsolidated equity at 31 December 2017					**5,186**

Adjusted unconsolidated equity is used as the basis for verifying compliance with equity requirement set forth in the Commercial Code.

According to the Estonian Accounting Law, the amount that can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

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Independent auditor's report

To the Shareholders of AS Baltika

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Baltika and its subsidiaries (together the Group) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

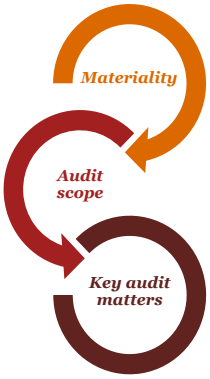
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

During 2017, we have not provided any non-audit services to the Group.

Our audit approach

Overview



Materiality
Overall Group materiality is EUR 0.4 million, which represents approximately 0.9% of revenue.

Audit scope
We performed audit procedures over all significant transactions and balances across the Group as a whole. In limited areas where we relied on non-PwC component auditors, we determined the level of involvement needed to be able to report on the financial statements as a whole.

Key audit matters
- Revenue recognition
- Inventory valuation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.
Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	EUR 0.4 million
How we determined it	Approximately 0.9% of revenue
Rationale for the materiality benchmark applied	We consider the Group's ability to generate revenue to be key determinant of the Group's value and a key metric used by management, investors, analysts and lenders.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	*How our audit addressed the key audit matters*
Revenue recognition (Refer to Note 1 "General information and summary of significant accounting policies", Note 16 "Segments" and Note 17 "Revenue and client bonus reserve"). In 2017, the Group recognised net revenue of EUR 47.5 million. Revenue consists mainly of retail revenue generated in shops in the amount of EUR 39.5 million and wholesale revenue from wholesale and franchise partners and e-commerce in the amount of EUR 7.8 million. In our view, the vast majority of the Group's revenue transactions are non-complex, with no judgment required to be applied in respect of the timing of revenue or amounts recorded. However, some judgment and management estimates are needed for a proper accounting in certain areas, including: • client loyalty programme; and • delivery terms and returns relating to wholesale and franchise partners. Revenue recognition requires significant time and resource to audit due to its magnitude, and is, therefore, considered to be a key audit matter.	We audited revenue recognition through a combination of controls testing and substantive testing. • We assessed the correctness of revenue bookings, by agreeing selected transactions in the accounting systems to supporting evidence, such as invoices, agreements and subsequent cash receipts. • We obtained confirmations from largest customers for both annual revenue and year-end receivable balance. • We agreed a selection of retail revenue recorded in the general ledger to incoming cash by retail store, day and market, validating the amounts received to bank receipts and card payments. • We tested whether all conditions to recognise revenue were met for wholesale and franchise transactions by examining sales agreements for any specific conditions, such as returns, and by examining returns and credit invoices to assess whether such transactions were recorded in a proper period. • In order to assess the impact of the client loyalty programme to revenue recognition, we reviewed the appropriateness of the calculation and tested the validity of respective supporting information, including assumptions. • We obtained the list of manual journal entries impacting revenue and reviewed entries for appropriate supporting evidence. As a result of our work, we noted no material exceptions.

Inventory valuation (Refer to Note 1 "General information and summary of significant accounting policies", Note 2 "Critical accounting estimates and judgements in applying accounting policies", Note 6 "Inventories" and Note 18 "Cost of goods sold").

Inventories are carried at the lower of cost and net realisable value. As of 31 December 2017, the total carrying amount of inventories was EUR 10.5 million, including EUR 0.2 million allowance for impairment.

The Group manufactures and sells fashion goods that are subject to changing consumer demands and fashion trends. Therefore, estimates are required to assess the net realisable value and the related write-down of inventory.

The estimates are based on the management's expectations regarding future sales and promotion plans as well as on historical sales patterns. The estimates are further adjusted based on post balance sheet date actual sales performance.

Due to the size and related estimation uncertainty, valuation of inventories is considered a key audit matter.

We assessed the reasonableness of inventory write-downs as follows:

- We obtained the Group's policies for inventory write-downs and analysed the management's previous estimates and resulting write-downs by comparing them to historical actual sales patterns. In doing so, we obtained understanding of the relationship between the ageing profile of inventory and historical actual loss rates, and validity of management estimates made in previous periods.

- We calculated our own estimate of the required write-down by applying the historical sales data to the surplus stock as at the year-end, considering the stock profile and age. We used historical data to estimate potential losses on discounted sales.

- We tested on a sample basis the ageing categorisation of inventory items to obtain comfort over the categorisation of stock used in the calculation of write-down.

- We obtained the management's expectations for future sales and their inventory management plans, and compared them with our knowledge regarding market trends.

As a result, we found that the write-downs of inventory recognised by the Group are within the range independently developed by us.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In the Group's financial statements, eight reporting units are consolidated. Based on our risk and materiality assessments, we determined the transactions and balances across the Group, which were required to be audited by the group audit team, considering the relative significance to the Group and the overall coverage obtained over each material line item in the consolidated financial statements. In limited areas where the work was performed by non-PwC component auditors, such as procedures on physical inventory counts and taxes outside Estonia, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's financial statements as a whole.

Other information

The Management Board is responsible for the other information that is disclosed in the Group's Annual Report, in addition to the consolidated financial statements and our auditor's reports thereon.
Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS Baltika, as a public interest entity, for the financial year ended 31 December 1998. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AS Baltika, as a public interest entity, of 20 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AS Baltika can be extended for up to the financial year ending 31 December 2023.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Eva Jansen-Diener
Auditor's certificate no.501

22 March 2018

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROFIT ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net profit for the year ended at 31 December 2017 for 58 thousand euros to allocate as follows:

Retained earnings	58
Total	**58**

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2017.

The Supervisory Board of AS Baltika has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated financial statements, the Management Board's recommendation for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the annual shareholders meeting.

Meelis Milder
Chairman of the Management Board
22 March 2018

Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Board
22 March 2018

Maigi Pärnik-Pernik
Member of the Management Board
22 March 2018

Tiina Mõis
Member of the Supervisory Board
22 March 2018

Reet Saks
Member of the Supervisory Board
22 March 2018

Lauri Kustaa Äimä
Member of the Supervisory Board
22 March 2018

Valdo Kalm
Member of the Supervisory Board
22 March 2018

AS BALTIKA SUPERVISORY BOARD

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

TIINA MÕIS
Member of the Supervisory Board since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Board of AS LHV Pank and AS LHV Group,
Member of the Supervisory Board of Rocca al Mare Kool.
Baltika shares held on 31 December 2017: 977,837 shares (on AS Genteel account)[1]

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

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Board since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Board of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Board of KJK Invest Oy,
Member of the Board of Kaima Capital Eesti OÜ,
Member of the Board of Aurejärvi Varainhoito Oy,
Member of the Board of UAB Malsena Plius,
Member of the Board of UAB D Investiciju Valdymas,
Member of the Board of Bostads AB Blåklinten Oy,
Member of the Board of AS Baltic Mill,
Member of the Board of KJK Investicije d.o.o,
Member of the Board of KJK Investicije 2 d.o.o,
Member of the Board of KJK Investicije 3 d.o.o,
Member of the Board of KJK Investicije 4 d.o.o,
Member of the Board of KJK Investicije 5 d.o.o,
Member of the Board of KJK Investicije 6 d.o.o,
Member of the Board of KJK Investicije 7 d.o.o,
Member of the Management Board of Amber Trust Management SA,
Member of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Board of KJK Fund II SICAV-SIF,
Member of the Supervisory Board of Salva Kindlustuse AS,
Chairman of the Supervisory Board of AS PRFoods,
Member of the Supervisory Board of Managetrade OÜ,
Member of the Supervisory Board of Toode AS,
Chairman of the Supervisory Board of JSC Rigas Dzirnavnieks,
Chairman of the Board of KJK Management SA,
Member of the Board of KJK Capital Oy,
Member of the Supervisory Board of AS Saaremere Kala,
Member of the Supervisory Board of Eurohold Bulgaria AD,
Member of the Board of Leader Group 2016 AD,
Director of KJK Bulgaria Holding EOOD,
Director of Amber Trust SCA,
Director of Amber Trust II SCA,
Member of Supervisory Board of AAS Baltijas Apdrosianas.
Baltika shares held on 31 Dec 2017: 24,590 shares (on Kaima Capital Eesti OÜ account)[1]

VALDO KALM
Member of the Supervisory Board since 20 April 2012
Chairman of the Board of Port of Tallinn
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Member of the Management Board of OÜ VK CO.
Baltika shares held on 31 December 2017: 0

[1]Members of the Supervisory Board of AS Baltika own shares through the companies AS Genteel and Kaima Capital Eesti OÜ (see Corporate governance report section "Supervisory Board").

AS BALTIKA MANAGEMENT BOARD

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

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

Revenues (not consolidated) by EMTAK (the Estonian classification of economic activities)

Code	Definition	2017	2016
46421	Wholesale of clothing and footwear	30,177	32,250
47911	Retail sale via mail order houses or via Internet	1,468	1,063
46191	Wholesale of other products	126	153
46151	Brokerage of furniture, other products	89	384
14131	Other sewing services	27	37
68201	Other rental revenue	11	4
Total		**31,898**	**32,828**

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*