AS BALTIKA

ANNUAL REPORT
2018

AS BALTIKA

2018 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	01.01.2018 - 31.12.2018

CONTENTS

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 2018 Group had 117 stores, including 23 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

	2018	2017	2016	2015[1]	2014
Comprehensive income data, in millions					
Revenue	44.7	47.5	47.0	48.8	57.1
Gross profit	21.5	23.7	23.5	23.1	28.9
EBITDA	-2.9	1.9	2.0	0.9	0.6
Operating profit	-4.7	0.6	0.7	-0.3	-0.7
Profit before income tax	-5.2	0.1	0.2	-0.8	-1.1
Net profit	-5.1	0.1	0.2	-0.8	-1.3
Other data					
Number of stores in retail	94	95	95	95	105
Number of stores total	117	128	128	123	128
Retail sales area in the end of period, sqm	17,741	17,741	17,161	17,046	20,232
Number of employees (31 Dec)	975	1,026	1,049	1,095	1,228
Sales activity key figures					
Revenue growth	-5.8%	1.0%	-4.0%	2.0%	-2.1%
Retail sales growth	-2.7%	-0.5%	-7.1%	1.3%	-5.8%
Share of retail sales in revenue	86.0%	83.2%	84.4%	87.6%	90.0%
Share of exports in revenue	55.1%	55.4%	56.4%	56.6%	65.2%
Gross margin	48.1%	49.9%	50.0%	47.3%	50.8%
Operating margin	-10.5%	1.3%	1.5%	-0.6%	-1.2%
EBT margin	-11.6%	0.2%	0.4%	-1.6%	-2.0%
Net margin	-11.4%	0.1%	0.4%	-1.7%	-2.2%
Inventory turnover	2.14	2.15	2.17	2.16	2.09
Financial position data, in millions[2]					
Total assets	15.0	17.8	18.9	18.1	23.1
Interest-carrying liabilities	9.0	6.7	7.0	6.3	7.3
Shareholders' equity	0.07	5.2	5.0	4.8	8.7
Current ratio	0.9	1.8	1.1	1.3	1.6
Debt to equity ratio	13 660.8%	128.7%	141.6%	131.5%	83.0%
Net gearing ratio	12 785.0%	115.1%	133.2%	123.2%	74.9%
ROE	-138.0%	1.3%	3.8%	-92.8%	-13.4%
ROA	-28.2%	0.3%	0.9%	-28.1%	-5.4%

	2018	2017	2016	2015[1]	2014
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	40,794,850
Share price (31 Dec)	0.16	0.25	0.28	0.34	0.46
Market capitalisation, in millions (31 Dec)	6.7	10.4	11.5	14.0	18.8
Earnings per share (EPS)	-0.13	0.00	0.00	-0.16	-0.03
Diluted earnings per share (DPS)	-0.13	0.00	0.00	-0.16	-0.03
Change in EPS, %	2981%	0%	103%	433%	-1278%
P/E	-1.8	57.61	65.21	-2.19	-14.9
Book value per share	0.00	0.13	0.12	0.12	0.21
P/B	97.4	2.0	2.3	2.9	2.2
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 payout ratio	0%*	0%*	0%*	0%	0%

*Proposal to the general meeting.

[1]In connection with Baltika Group`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 AS 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)xNumber 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 6 to 46 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
20 March 2019

Maigi Pärnik-Pernik
Member of the Management Board
20 March 2019

MANAGEMENT REPORT

CHAIRMAN'S STATEMENT

In the second half of 2017, the analysis of the fashion industry carried out by Baltika's management forecasted the increase of traditional fashion business problems, but the changes happened faster than we expected. In 2018, following symptoms of crisis were noticed in the whole market and also in our business customers`s home markets:

- the supply of fashion products is too big and the distinction of products is too small
- retail and wholesale business models have remained unchanged for a long time - they are slow, inflexible and based on one sales channel
- the implementation of modern working methods and tools in business processes is too slow, therefore most of the fashion businesses´ customer experience do not meet increased expectations

This all in a situation where many other activities and businesses, like travelling and entertainment, compete with each other to win consumer's attention and money. In addition to that, in Baltika Group, there were also the specific problems of Eastern-European markets related to the decrease in general purchasing power of the people and the complex economic and political situation in the region.

At the beginning of 2018, we predicted that we will have two years to develop and implement changes. We also assumed that the changes in the business model will take place in a positive environment, with stable sales volumes and revenues. Reality turned out to be different. In 2018, the sales revenue of business customers that had been carefully increased so far decreased by -1.9 million euros (-31%) and gross profit by -0.6 million euros. The Baltic retail market was more better coping with the decrease in consumption, but due to the long summer, the sale of autumn-winter season collections began a month later, leading to a lost revenues by -1.1 million euros (-3%) and a decrease in gross profit by -0.6 million euros.

"Strategy 2022", which was worked out in the first half of the year and approved by the Supervisory Board on 22 August, focused on developing customer experience, international growth and digitalization. Due to the rapidly changing environment, the strategy approved in August needed to be reviewed in the second half of the year. To date, a new action plan for 2019–2020 has been worked out, which is based on "Strategy 2022", but it takes into account the changed fashion environment and focuses radically on simplifying Baltika Group's business processes and reducing operating costs.

The focus in 2019-2020 action plan will remain on customer and development of customer experience. At the same time the transition in 2020 to needs-based product development and customer experience management process is also being prepared. The value proposition focuses on two customer segments: *mainstream* and *premium*. In *mainstream* segment, we will continue with Monton, including Mosaic and Bastion also under this brand from spring-summer 2020 season. We create a new value proposition for a leading *mainstream* brand that focuses on working person and on her/him needs- to look confident and save time. Of course, we will continue to provide excellent design and product quality to our existing and future loyal customers. The move to a single branding starts with the merging of today's Monton and Mosaic men's collections from the autumn-winter2019 season.

2018 was a very controversial year for Baltika Group, who celebrated its 90th anniversary. We are stronger this year because we worked out and implemented the strategy for the next four years. This strategy is the basis for significant and substantive changes in the main business processes, sales channels and brand portfolio. Although we had to renew our plan due to the sharp deterioration of fashion business environment, and 2018 will remembered with a net loss, it is good to go in the 2019 with such a strong team.

I thank all the employees, who despite the constant challenges, are implementing the mission to provide our customers the greatest products and believe that anything is possible together!

Meelis Milder
Chairman of the Management Board

FINANCIAL RESULTS OF 2018

Baltika Group ended the year 2018 with the loss of 5.1 million euros, which includes one-off allowance for impairment in amount of 2.0 million euros (allowance for impairment for Eastern-European franchise partners) and one-off costs related with the 2019–2020 operational plan in amount of 1.6 million euros. Last year's result was net profit in the amount of 0.06 million euros. Significantly worsened result was mainly driven by the business customers and retail sales revenue decrease, respectively nearly 2 and 1 million euro and higher distribution costs related to entering Finnish market.

Baltika Group's sales revenue in 2018 was 44.7 million euros, decreasing 6% compared with last year. The biggest growth by channels showed e-com by 16% i.e 0.2 million euros, with the sales revenue of 1.7 million euros.

Retail sales in 2018 was 38.4 million euros, which is 3% less than last year. Sales revenue decreased in all three Baltic retail markets. The sales revenue in Estonia and Lithuania decreased the most, by -5% and -3%, respectively. In Latvia, the result stayed at last year's level. The decrease in retail sales is driven by the decrease in Baltic market due to the rapid change in the fashion business environment.

In 2018, the sales revenue of business customers decreased by 31% i.e 1.9 million euros to 4.4 million euros. The significant decline in sales was due to the change in the cooperation agreement with the department store chain in Germany and Central Europe, Peek & Cloppenburg, in this autumn, according to which Monton collections are no longer sold in most department stores in Germany. Another significant reason of the decline in sales revenue was the sharp decline in franchise sales revenue to Russia, Belarus and Ukraine. Due to the difficult economic and political situation in Ukraine and Belarus, the sales volumes and solvency of franchise partners have decreased significantly, therefore Baltika Group decided in the first quarter of 2019 to terminate franchise agreements with Belarusian and Ukrainian partners. Cooperation with the Russian franchise partner will continue, but at smaller scale.

Baltika Group`s gross profit was 21.5 million euros, which is 2.1 million euros less than in 2017. The gross profit of the 2018 includes one-off costs (write-off of the materials and production tangible fixed assets) in amount of 0.8 million euros which are related with Baltika Group's 2019 and 2020 operational plan. Gross profit decrease in 2018 is driven by the decrease of sales revenue of business customers, particularly Germany and Eastern-European region customers. In addition, the gross profit was influenced by the decrease in Estonian retail sales, particularly in fourth quarter and men' s segment lower sales. Women's segment gross profit increased compared with the last year and the most impacted the improvement of the result Monton's women collection gross profit increase by 3%.

Distribution costs increased by 5% i.e 0.9 million euros compared to the previous year and were 21.6 million euros. The distribution costs of 2018 include the write-off costs of Bastion trademark in amount of 0.6 million euros. Retail market costs remained at previous year's level, precisely because of the closure of inefficient stores. Distribution costs at headquarter have increased by 9% i.e 0.5 million euros due to the new posts created for the implementation of „Strategy 2022", increased rental costs and the write-off costs related with Bastion trademark. Administrative expenses were 2.4 million euros, decreasing by 1% compared to the previous year. In 2018, the ratio of marketing and administrative costs to sales revenue was 53.6% (2017: 48.5%). The sharp decrease in sales revenue and the inability to reduce fixed costs at the same has worsened the marketing and administrative costs to sales revenue ratio by 5.1 percentage points. Financial expenses increased by 6% or 0.03 million euros in 2018 compared to the previous year and were 0.5 million euros.

HIGHLIGHTS OF THE PERIOD UNTIL THE RELEASE OF ANNUAL REPORT

- In February 2018, after the opening ceremony of the Pyeongchang Winter Olympics, Monton's collection created for Olympics received recognition from many of the world media publications and the outfit of the Estonian Olympic Delegation was named as one of the best in Pyeongchang.

- In March 2018 the Supervisory Board of AS Baltika decided to propose to the general Meeting of shareholders, to decrease the share capital. The share capital shall be decreased to cover prior period losses in a simplified way reduced by 4,079,850 euros. Share capital is reduced by way of reduction of the nominal value of each share by 0.10 euros. The new amount of the capital of the Company after the reduction of share capital and reduction of nominal value of the shares will be 4,079,850 euros, which is divided into 40,794,850 shares with the nominal value of 0.10 euros.

- In March 2018 the Supervisory Board of AS Baltika decided to propose to the general meeting of shareholders to approve managers share option program and conditional increase of the share capital by issuing up to 1,000,000 additional shares. The share options can be exercised in the years 2021–2022.

- In March 2018, a jury, consisting of fashion and design experts, nominated Hanna Haring, the Head Designer of Monton, for the most prestigious fashion award in Estonia - the Golden Needle (*Kuldnõel*).

- In March 2018, Monton debuted its colourful and lemur inspired #nofilter collection at Tallinn Fashion Week. With its collection, Monton encouraged people to find inspiration in the unusual and bring forth their true self.

- The Annual General Meeting of AS Baltika, held on 16th of May 2018 approved the Annual report for 2017 and profit allocation to retained earnings. General meeting decided to reduce the share capital to cover prior period losses in a simplified way. In relation of the decision to change share capital, decision to make amendments to the Articles of Association were also made. Annual General Meeting approved the managers' share option program and conditional increase of the share capital according to terms proposed by Supervisory Board. Also, the term of authorities of members of the Supervisory Council - Jaakko Sakari Mikael Salmelin, Lauri Kustaa Äimä, Valdo Kalm, Tiina Mõis and Reet Saks – were extended for the next 3 years.

- In May 2018, CEO of Baltika Group Meelis Milder received the Order of the Estonian Olympic Committee (EOK). The highest recognition of EOK was accredited for Baltika's contribution to the development of Estonian Olympic and Sporting Movement. Baltika Group has been long-standing supporter of EOK and Monton has been designing collections for the Estonian Olympic delegation since 2004. The EOK has been giving the orders since 2006 and honoured 62 people.

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

- In August 2018, the Supervisory Board of AS Baltika approved the specified action plan for 'Strategy 2022' implementation. The plan comprises of 16 projects, of which the most important focus on three areas: internationalization, digitalization and customer centricity.

- In November 2018, a new concept store, Vèrenni, representing all Baltika Group`s brands was opened in T1 Mall of Tallinn department store. In the new concept, the products in the store are grouped based on the customer needs, i.e according to the situation in which the clothes are needed. During the first months, the store proved to be particularly popular among men, who thought it was easier to find the clothes, which were grouped this way.

- As the complex economic and political situation in Ukraine and Belarus has caused a significant decrease in sales volumes and solvency of Baltika Group`s franchise partners on these markets, Baltika Group decided to terminate franchise agreements before the end of their period of validity with Belarusian and Ukrainian partners in the first quarter of 2019. Cooperation with Russian franchise partner will continue but on a smaller scale. Consequently, Baltika Group evaluates the Eastern-European partners' liabilities as not fully collectable and thus creates an allowance for impairment in 2018. The early termination of the agreements results in a decrease of nearly 1 million euros in Baltika Group`s wholesale and franchise sales revenue in 2019.

- Baltika Group`s new strategy focuses on customer experience-based sales and marketing. In this context, the Customer Experience Division was established in January 2019, led by Mari-Liis Küppar, sales and marketing director, who joined Baltika Group as a marketing and communications manager in December 2017. The new division is responsible for managing sales and marketing across all customer segments and channels and developing customer experience for their customers.

- In March 2019, the Supervisory Board of AS Baltika approved the business plan for 2019 and 2020. The main parts of the operational plan are optimizing the brand portfolio and sales channels, digitalisation and changing the purchasing base. With the transition to an optimized brand portfolio, significant simplification of business processes and dissolving the production in Estonian production units, Baltika Group's fixed costs will be reduced by nearly two million euros over the next 12 months.

- In March 2019, the Supervisory Board of AS Baltika approved Mae Hansen, the third member of the management board of AS Baltika. She is responsible for implementing the company's 2019 and 2020 business plan.

- As at 31st of December 2018 there were 94 stores in Baltika Group`s retail store portfolio.

MEETING THE OBJECTIVES OF 2018

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

In the Baltic fashion industry as a whole had a difficult year and Baltika Group`s retail sales revenue decreased by 3%. At the same time, the operating costs of the retail channel increased. The franchise and wholesale sales revenue fell sharply, and the costs of implementing the strategy increased the level of marketing and general administration costs by 2%. In addition, the allowance for impairment in amount of 2.0 million euros against Eastern-European franchise partners`claims were made, and also one-off costs of 1.6 million euros related to the 2019–2020 operational plan. As a result of the combined effect of all factors, Baltika Group earned a net loss of 5.1 million euros.

The named objective was not met by Baltika Group in 2018.

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

In 2018, conversion rate showed positive upward trend, e-commerce showed a 16% and a Finnish market with 61% sales growth. As an innovation, in November Baltika Group opened the new roof brand concept based store Vèrenni in T1 Mall of Tallinn shopping center. Opening this store was the first milestone on the way to becoming an organization that values customer experience. In addition to the opening of the store, significant changes were made in the organization - the concept of customer experience management and the work process and the corresponding management structure were implemented.

According to Estonian consumer surveys, Baltika Group`s brands are at the forefront of consumer preferences (Monton`s 3rd place, Mosaic`s 6th place), but consumer purchasing behaviour in the warm autumn conditions led to a decline in sales volumes. In the Baltic retail market, sales volumes dropped by 3%, mainly due to modest sales in the outerwear and knitwear category. The biggest rebound came from Baltika Group`s wholesale and franchise partners in Germany, Russia, Ukraine and Belarus, whose sales revenue decreased by 31%. The decline in sales volumes was not compensated even by the cooperation agreements with three new partners.

The named objective was not met by Baltika Group in 2018.

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

Parent company formed several new divisions (Customer Experience Division) and positions (Head of Digitalisation) to ensure the implementation of new Strategy, and included new competencies with new employees. Collection teams matching the new brand portfolio were also agreed. Changes in the organization led to uncertainty in employees. In the light of transformed or new demands, the movement of employees was higher than usual. High labor turnover also characterized Baltika Group`s retail channel in Estonia, Latvia and Lithuania. New solutions were developed to maintain a high level of service and a review of the employer value proposition was started.

2018 was the 90th anniversary year for Baltika Group, which was celebrated with events for employees during the year. To broaden the horizon, the Fashion Event called Moekolmapäevak was launched, and live broadcast of the Nordic Business Forum was continued. In 2017, the Baltika Group`s Values project was launched, and its activities were extended to 2018.

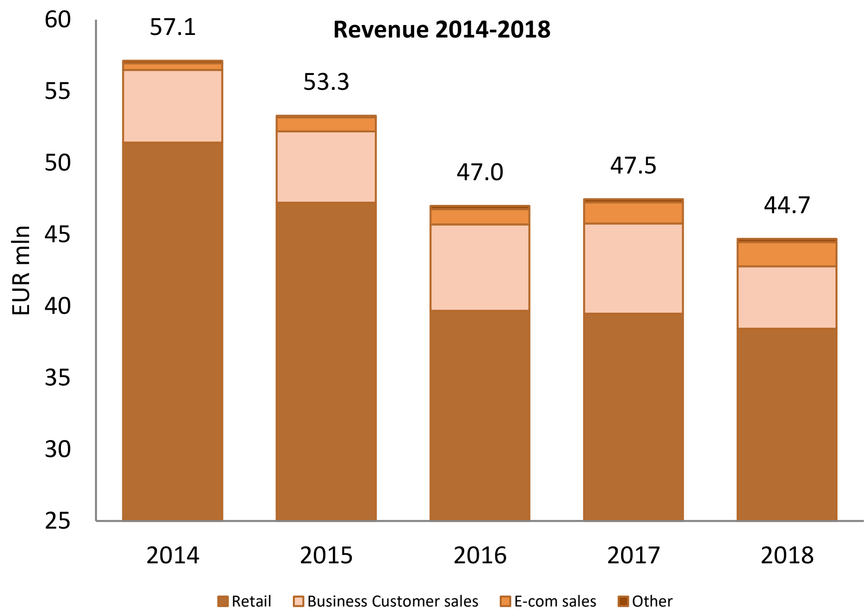
Baltika Group met partially the named objective to engage in keeping and improving employee motivation and dedication in year 2018.

2018 Consolidated Annual Report (in thousands of euros)

REVENUE

Revenue by channels

EUR million	2018	2017	+/-
Retail	38.4	39.5	*-3%*
Business Customer sales	4.4	6.3	*-30%*
E-com sales	1.7	1.5	*16%*
Other	0.2	0.2	*0%*
Total	**44.7**	**47.5**	***-6%***



*total sales of discontinued and continuing operations

RETAIL

In 2018 retail revenue was 38.4 million euros i.e. 3% less than last year's comparative result.

Retail sales by markets

EUR million	2018	2017	+/-
Estonia	18.2	19.1	*-5%*
Lithuania	10.0	10.3	*-3%*
Latvia	10.0	10.1	*0%*
Finland	0.2	0.0	*1107%*
Total	**38.4**	**39.5**	***-3%***

2018 Consolidated Annual Report (in thousands of euros)

Baltika Group's biggest retail market continues to be Estonia. In a year the share of Estonian market has decreased by 1.0 percentage points, at the same time Latvia and Finland market share has increased respectively 0.6 and 0.4 percentage points.

In 2018, sales revenue decreased in all three Baltic retail markets. The sales revenue in Estonia and Lithuania decreased the most, respectively -5% and -3%. In Latvia sales revenue stayed at last year level. Sales efficiency of the entire retail channel decreased by -4% compared to the previous year.

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

EUR/m²	**2018**	**2017**	**+/-**
Estonia	195	201	*-3%*
Lithuania	151	156	*-3%*
Latvia	211	214	*-2%*
Finland	70	105	*-34%*
Total	**183**	**190**	***-4%***

AndMore bonus programme for loyal customers

The loyal customer programme AndMore, which covers all the stores and the e-store, 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 rolling 12-months purchase volume. Bonuses are personal and are 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 retail 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-store at Andmorefashion.com.

As of the end of 2018, 541,000 people had joined the bonus programme, including 37,400 people who joined in 2018. The purchase volume of loyal customers is around 69% of Baltika's total retail sale in the Baltic region and 31% respectively is purchase volume of anonymous customers. 56% of loyal customers are in the age group of 30–50 and 78% of loyal customers are female.

2018 Consolidated Annual Report (in thousands of euros)

STORES AND SALES AREA

At the end of 2018 Baltika Group had 117 stores in nine countries with total sales area of 22,082 m^2, among which 23 franchise stores with a total sales area of 4,324 m^2.

Retail network average operating area increased in Latvia and Finland and decreased in Estonia and Lithuania, in total the sales area of retail channel stayed at last year level. In Estonia in 2018 Bastion stores in Viru shopping center and in Tartu Tasku shopping center, Outlet in Eeden shopping center and Ivo Nikkolo store in Kristiine shopping center were closed. At the same time multi-brand store Vèrenni was opened in T1 Mall of Tallinn shopping center. In Latvia Bastion store in Galery Riga shopping center was opened and no stores were closed.

Stores by markets

	31 Dec 2018	31 Dec 2017	Average area change*
Estonia	41	44	-1%
Lithuania	30	29	1%
Latvia	22	21	1%
Finland	1	1	-
Ukraine[1]	10	16	-9%
Russia[1]	9	11	-7%
Belarus[1]	2	2	-3%
Spain[1]	1	3	-29%
Serbia[1]	1	1	32%
Total stores	**117**	**128**	
Total sales area, sqm	**22,082**	**24,042**	**-8%**

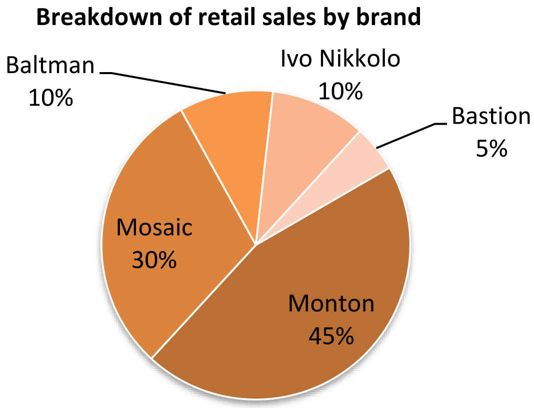
[1]Franchise stores have a total sales area of 4,324 m^2.
In 2018, 8 stores were closed from franchise stores: 6 in Ukraine, 3 in Russia and 2 in Spain.

Baltika Group`s retail network by market and brand, 31 December 2018

	Estonia	Lithuania	Latvia	Finland	Total	+/- vs 2017
Monton	9	8	6	0	23	0
Mixed brands	6	3	3	1	13	1
Mosaic	10	9	4	0	23	0
Baltman	5	6	3	0	14	0
Ivo Nikkolo	5	3	4	0	12	-1
Bastion	4	0	2	0	6	-1
Outlet	2	1	0	0	3	0
Total	**41**	**30**	**22**	**1**	**94**	**-1**
m2	8,003	5,559	4,011	185	17,758	17

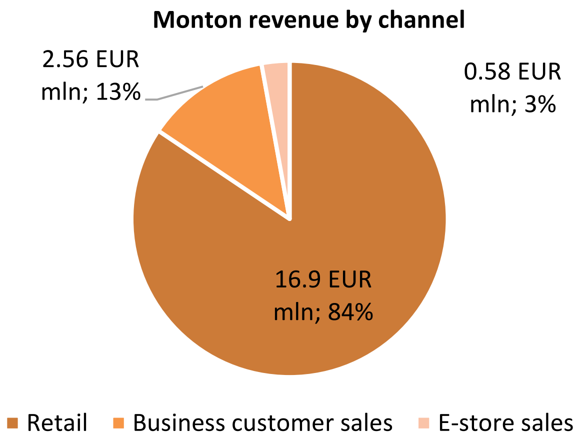
OVERVIEW OF BRANDS

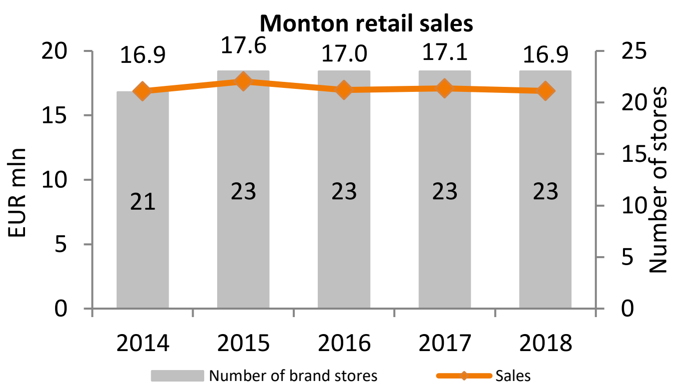
By brands, the largest share of Baltika Group's sales in 2018 was constitued by Monton 45% and Mosaic 30%. Monton's share dropped by one percentage point compared with last year due to decreased sales of business customers. In terms of sales revenue, Baltika Group`s third brand, Ivo Nikkolo, has increased its share by one percentage point compared with last year, due to increased sales in the E-store. While the sales revenue of all brands in the retail and business customer sales channel has decreased, the sales of all brands in E-store have increased at the same time. E-store revenue is distributed more evenly among brands than in other channels - Monton constitues to 35%, Mosaic 28%, Ivo Nikkolo 21%, Bastion 12% and Baltman 4%.



Monton

In 2018, Monton`s sales revenue was 20.1 million euros, decreasing by 7% i.e 1.5 million euros in a year. The main reason was a decrease of sales revenue of business customers by -36% due to the termination of franchise agreements. Retail revenue decreased 1%, which was mainly driven by the decrease in sales of Estonian market and men's collection. This was partly compensated by the increase in Latvian revenues and the increase in Finnish sales. At the same time, Monton's sales in the e-store showed continuous growth, increasing sales revenue by 20% compared to last year. Monton's sales revenue constitutes to 45% of Baltika Group`s total sales, making it the largest brand in Baltika Group`s brand portfolio.





Monton has 23 concept stores, of which 9 are located in Estonia, 8 in Lithuania and 6 in Latvia. In Estonia, the Monton brand is also represented in the Vèrenni store, which was opened in 2018. In Finland, the brand is represented in Espoo, Iso Omena's shopping center by MontonAndMore concept store, and also in the Finnish department store chain Aleksi 13. For the rest of the world, Monton reaches through its franchise partners. Since 2018, the brand has been found in addition to Serbia, Russia, Ukraine, Belarus and Spain, also in Slovenia and Croatia. Monton's collections were represented in one of Europe's best-known and oldest department stores chain, Peek & Cloppenburg in 2018.

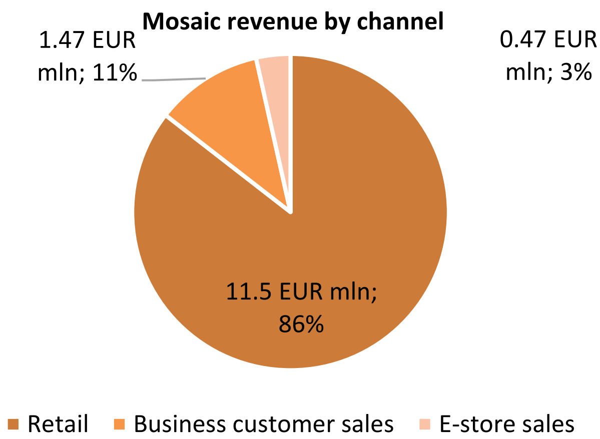
Monton brand is characterized by an intriguing but practical design, with leading fashion trends combined with a unique design handwriting. Monton's international success has due to its stable and reliable quality of collections and its good fit.

In 2018, Monton`s design team continued with a special collection called "Talented", which inspires people to express themselves and show their versatility, because no one needs to deny or suppress their nature. "Talented" special collections are anything but boring - they allow the collection to bring bolder colours and patterns and attract interest to the brand even in narrower fashion circles.

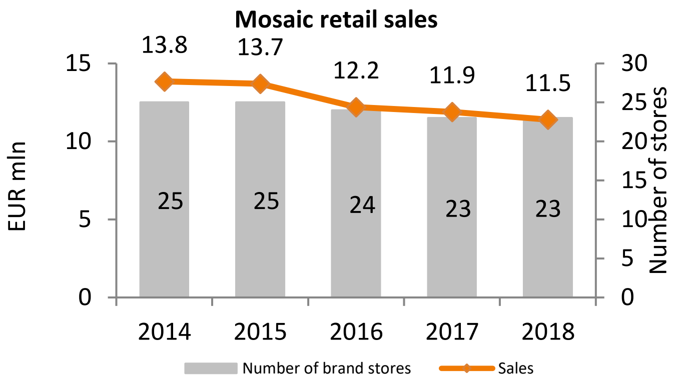
In spring and autumn 2018, Monton was represented at Estonian Fashion key event, Tallinn Fashion Week. In the spring, a collection of #nofilter, specially designed for the fashion week, was presented, combining items from the "Talented" collection and unique show-pieces, which were available for selling in Monton stores on the same day. The autumn fashion week collection Happy Sleet was dedicated to the changing weather in Estonia and inspiring to dress up in the dark time. Monton's head designer, Hanna Haring, was nominated for the dignified Golden Needle (Kuldnõel) Award.

Mosaic

In 2018, Mosaic`s sales revenue was 13.4 million euros, decreasing by 6% i.e 0.8 million euros in a year. The main reason was a decrease of retail and business customer`s sales revenue, respectively by -24% and -4%,. Retail sales decreased in all three Baltic markets due to a decline in sales of men's collections and sales of formal clothing and outerwear, and also the smaller selection and inventory due to the changes in collections. At the same time, Mosaic`s sales in e-tore showed a continuous growth trend, increasing sales revenue by 18% compared with last year, which shows that Mosaic's customer is getting used of e-store as a channel. The sales revenue of Mosaic constitutes to 30% of Baltika Group`s total revenue, making it the second largest brand in Baltika Group`s brand portfolio.



Mosaic brand is represented in 23 concept stores, of which 10 are located in Estonia, 9 in Lithuania and 4 in Latvia. In addition, Mosaic is represented in franchise stores in Ukraine, Russia and Serbia, and also in several wholesale channels: Stockmann department stores in Russia and Aleksi 13 department stores in Finland. The largest market for the Mosaic brand continues to be the brand home market in Estonia.

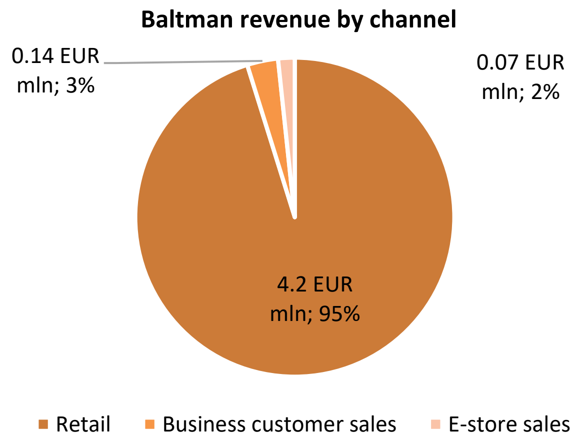


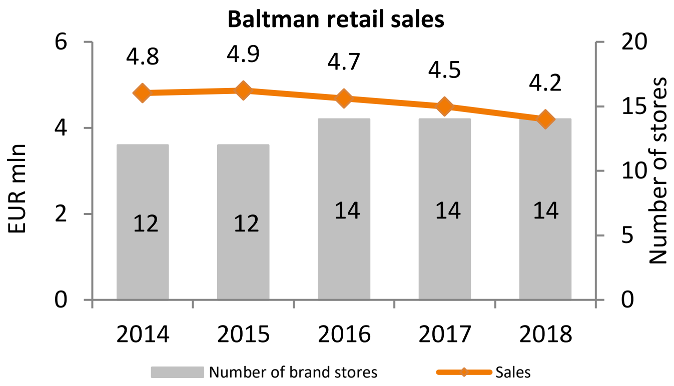
The role of Mosaic in Baltika's brand portfolio is to offer a classic and practical every day fashion for women and men. Carefully selected colours, fabrics and details go in the same direction as the latest fashion trends, while the timelessly elegant line of the pattern makes the clothes easy to combine with the existing wardrobe as well as the collections from the upcoming seasons. The presentative look of the clothes is ensured by the well-fitting. Mosaic contributes continuously in the wide range of sizes and well-fitting to ensure that every customer regardless of body type and length could find beautiful, elegant and well-fitting clothes.

At the end of 2018, Bastion and Mosaic, launched together the 30th anniversary collection inspired by glamour inspired by iconic singer and actress Marlene Dietrich and by black-and-white film art. The main tone of the collection was classic black, with white and silver shades. Exclusive fabrics and outstanding and playful patterns were used to make the collection a modern but at the same time authentic for wearing in cocktail parties and grand celebrations.

Baltman

In 2018, Baltman`s sales revenue was 4.4 million euros, decreasing by 9% i.e 0.4 million euros in a year. The main reason was a decrease of retail sales both in Estonian and Lithuanian market. The fall in sales of men and formal clothing (suits) in Baltman's entire collection contributed also into the decrease. At the same time, Baltman`s sales continued to grow at the e-store, increasing sales revenue by 6% compared to last year. Baltman's sales revenue constitutes to 10% of Baltika Group`s sales revenue, being the only men's premium brand in the Baltika Group`s brand portfolio. The biggest retail market for the Baltman brand continuous to be Estonia.





There are 14 Baltman`s concept stores in Baltika Group`s retail channel. Representative stores are located in Estonia, Latvia and Lithuania. In addition, Baltman's trademark continues to be represented in the brand portfolio of the Men's World of Tallinn and Tartu Department Store.

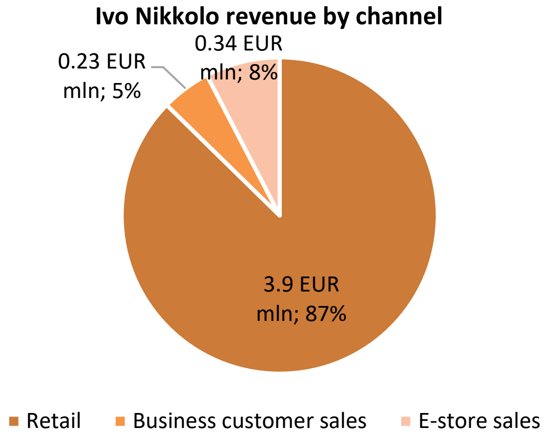
Baltman is the oldest brand in Baltika Group, established in 1991. Baltman offers both classic and trendy clothing, covering all the daily needs of today's modern man. Baltman is created for men who, besides the elegance values the fitting of the patterns, the quality of the materials and practicality.

The 2018 collection was characterized by dynamics, richness of details, and a very good combinability. Premium quality and the use of innovative fabrics are the cornerstones of Baltman's collections. The co-operation is made with fabric producers who have long history and worldwide production experience. For example, Baltman`s suits are made of Loro Piana, Dormeuil and Lanificio Cerrut fabrics which are also used by many high-end brands. All Baltman suits are produced here in Estonia, by Baltika Tailor OÜ, which is a production company owned by Baltika Group.

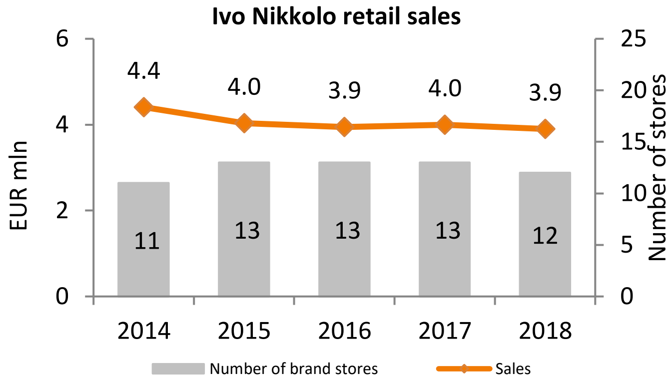
In 2018, several successful and important cooperation projects continued for Baltman. Since 2014, Baltman has been an official supporter of the world-class basketball club Kaunas Žalgiris, also a long-term cooperation with Estonian Football Association continued. In both cases, the coaches wear Baltman Travel suits, which in term of comfort and high quality meet their needs in best way. In 2018, Baltika Group made the biggest suit of its history. With special order, Baltman suit was made for Arvydas Sabonis, a basketball legend of the world. Lithuania's best ever basketball player is 221 cm tall and is wearing a size 68. Throughout his life, Arvydas has been wearing tailor-made clothes, which were made by his father, who was a tailor. Taking measurements and sewing a suit that meets its high demands was a major challenge for Baltman, which they successfully managed.

Ivo Nikkolo

In 2018, Ivo Nikkolo`s sales revenue was 4.5 million euros, which remained at the same level as last year. The sales revenue of business customers increased by 13% and sales revenue of e-store increased by 16%. Retail revenue decreased by 2%, which was mainly driven by the decrease from Estonian and Lithuanian market (respectively -1% and -9%). At the same time, Latvian market grew by +2%. In Estonian market, we closed one ineffective store, which, despite the decline in sales revenue, increased the sales of the whole brand per square meter.



In consumer behaviour, it is seen that Ivo Nikkolo's customer has become more stable in purchasing clothing and has found an e-store as a shopping channel. Ivo Nikkolo's revenue constitutes to 10% of Baltika Group`s total sales revenue and is the only women premium brand in Baltika Group`s brand portfolio. Ivo Nikkolo brand is represented by 12 stores, of which 5 is in Estonia, 4 in Latvia and 3 in Lithuania. Ivo Nikkolo brand is also represented Vèrenni concept store, which was opened in November in T1 mall of Tallinn shopping center.



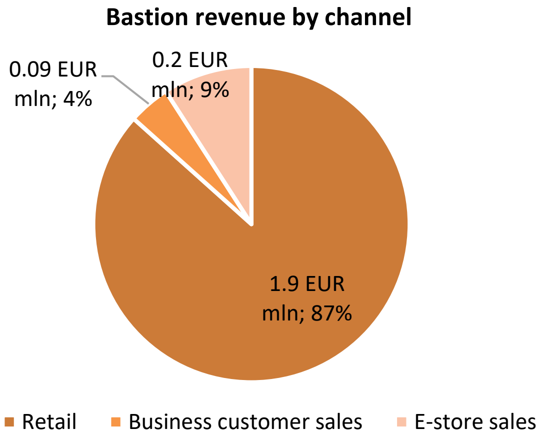
Ivo Nikkolo is known as a fashion brand, which has unique handwriting. Ivo Nikkolo is valued for its original and recognizable designs and its high quality and innovative fabrics. Ivo Nikkolo is designed for a modern woman who appreciates a distinctive design with playful elements and surprising details. In 2018 Ivo Nikkolo continued to design a bolder and more youthful design by a team of designers composed of Head Designer Britta Laumets and Designer Frida Jõe.

In October 2018, Ivo Nikkolo presented a new spring summer fashion collection in fashion event, Riga Fashion Week. The collection is characterized by its original patterns, therapeutically vivid colors and simple patterns. Outstanding print patterns are the original work of Ivo Nikkolo's Designers Britta Laumetsa and Frida Jõe. The materials used in the collection are natural and are chosen primarily for the modern woman and her lifestyle. Comfort, modern luxury, softness and durability are the characteristics of the collection fabrics.

In the autumn and winter of 2018, Ivo Nikkolo continued the creation of home products, which started in 2017. The first product was the aroma candle, and this year the room perfume was added. The space perfume was created in collaboration with Helge Kodu, one of the most prominent room designers in Estonia. The idea of Ivo Nikkolo's room perfumes is to complement the emotional product collection and support customers in a long dark winter. The idea was to create an intriguing, but elegant, and somewhat masculine space perfume - as a result of joint experiments, an exciting combination was born, called Siid and Tõrv.

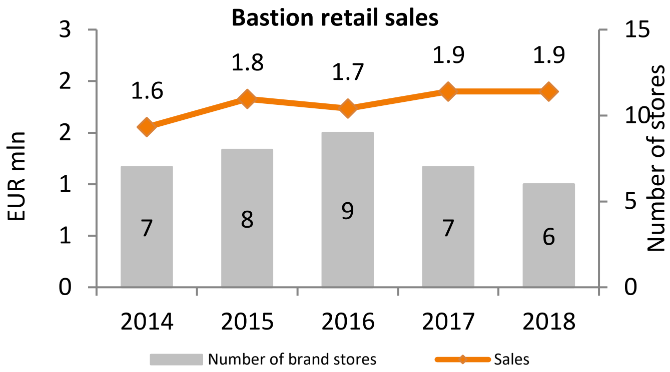
Bastion

In 2018, the sales revenue of Bastion was 2.2 million euros, decreasing by 3% i.e 0.06 million euros in a year. Retail sales decreased by 1% with a year, but at the same time, Bastion brand in the e-store showed a continuous growth trend, increasing by 8% compared to the previous year. The main reason for the decrease in sales revenue is the closure of ineffective stores (Tallinn Viru Street and Tartu Tasku stores) and also the smaller collection. Bastion's revenue constitutes to 5% of Baltika Group`s sales revenue, while being the smallest brand in Baltika Group`s brand portfolio.

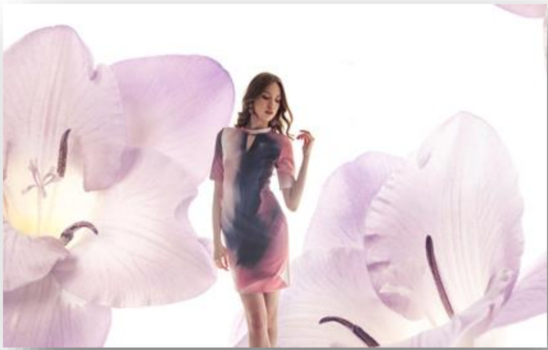


There were 6 Bastion brand stores in the end of 2018, 4 in Tallinn and 2 in Latvia. In addition to its concept stores, the Bastion brand is also represented in several multibrand stores in Estonia, Latvia and Lithuania, and also in Vèrenni store, which was opened in 2018.

Bastion collection is characterized by a feminine handwriting, which reflects in the fabrics and in the patterns. Timeless design and stretch fabrics, which are used for the comfort of the wearer, make the products fit for every type of the body. From year to year, the Bastion collections are characterized by distinctive details and feminine patterns that bring out the best of the wearer.



At the end of 2018, Bastion and Mosaic, launched together the 30th anniversary collection inspired by glamour and singer and actress Marlene Dietrich and by black-and-white film art. The main tone of the collection was classic black, with white and silver shades. Exclusive fabrics and outstanding and playful patterns were used to make the collection a modern but at the same time authentic for wearing in cocktail parties and grand celebrations.



BUSINESS CUSTOMERS SALES

The goal of business customers` sales in 2018 was to keep existing customers and find new customers. The negative financial results of existing customers made it more urgent than before to change the current export strategy.

In 2018, the sales revenue of business customers was 4.4 million euros, decreasing nearly 2 million euros i.e -31%. The decrease in sales revenue was due to the sharp decline in sales volumes of franchise partners in Eastern-Europe and the termination of the Monton brand sales contract with Peek & Cloppenburg in Germany department stores since the 2018/2 season. The change is due to the new strategy of the distributor and the selection of the brands offered on the home market. At the end of the year, Monton was sold in 24 Peek & Cloppenburg department stores instead of the previous 39 department stores.

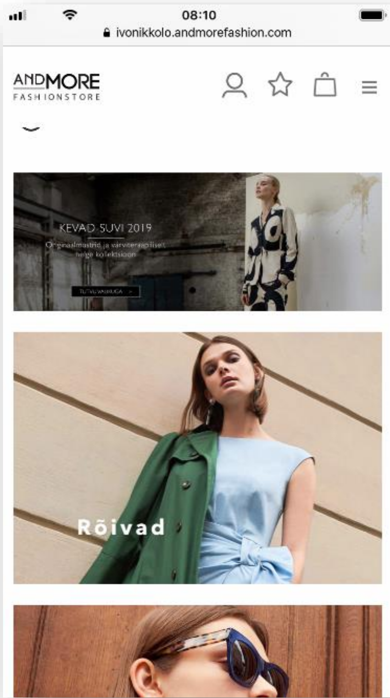
As a result of the difficult economic and political situation in Ukraine, Belarus and Russia, Baltika Group`s franchise partners' sales volumes and solvency have decreased significantly. Due to that, ineffective stores were closed at the end of the year and shipments to partners were also reduced. In January 2019, the public was informed of the decision to terminate franchise agreements with Belarusian and Ukrainian partners in the first quarter of 2019. Cooperation with the Russian franchise partner will continue, but on a smaller scale.

As a one step from the new export strategy, wholesale cooperation was restarted on the basis of a consignment model. The first contract of this kind was signed in July with Montecristo SL D.o.o, a department store chain in the Balkan region, with over 100 department stores and over 200 retail outlets in Europe. In August, sales of Monton brand were launched in two sales points and by the end of the year, the number of Monton sales points had increased to five. At the end of the year, a new co-operation model based on a consignment model was also signed with the Finnish department store chain Aleksi 13.

The goal of 2019 is to concentrate on two focus markets
- to continue expansion in the Balkans and to find new partners in Finland and pay more focus on increasing business volumes in Finnish e-commerce.

E-STORE SALES

In 2018, the sales revenue of Baltika Group`s online store Andmorefashion.com increased by 16% and was 1.7 million. Monton (35%) constitutes to the largest share of sales, followed by Mosaic (28%) and Ivo Nikkolo (21%). The sales revenue of all brands increased, Monton brand grew the most by 20%. 88% of the sales revenue is generated by Baltic countries, where the biggest growth jumps were: in Estonia (+23%), Latvia (+19%) and Lithuania (+ 18%). The increase in revenues in 2018 was due to the improved customer experience, expansion of the Click & Collect network (delivery to the store) and more efficient marketing activities.



During the year, the number of e-store visitors increased by 8% and the conversion rate by 23 percentage points. E-store visitors are mostly women (80%) in age group 24–44. An important trend is the usage of e-store in a mobile phone, which increased by 35%.

The focus in 2019 is to increase e-store sales in the Baltics and Finland. The expansion of the Click & Collect service in the Latvian and Lithuanian markets will be continued to improve the e-store integration with physical stores. More attention is payed to increasing the ease of use of e-store in mobile phones and also increasing the conversion rate.

OPERATING EXPENSES AND PROFIT

In 2018, Baltika Group`s gross profit margin was 48.1%, which is 1.8 percentage points lower than in the previous year (2017: 49.9%). In 2018, sales revenue decreased by -6% and gross profit by -9%. The company's gross profit was 21.5 million euros i.e EUR -2.2 million less than the comparable result of the previous year (2017: 23.7 million euros). The gross profit of the 2018 includes one-off costs (write-off of the materials and production tangible fixed assets) in amount of 0.8 million euros which are related with Baltika Group's 2019 and 2020 operational plan.

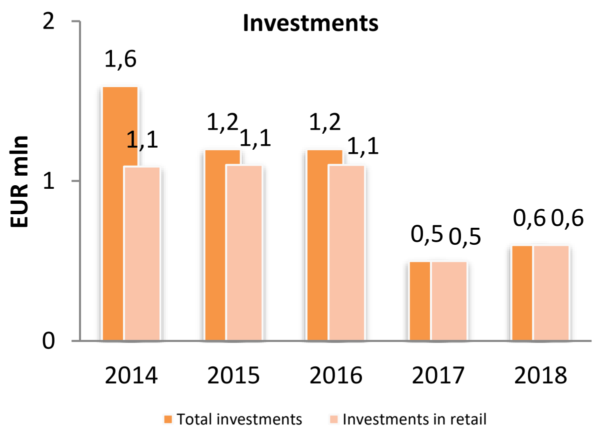
Distribution costs increased by 5% i.e 0.9 million euros compared to the previous year and were 21.6 million euros. The distribution costs of 2018 include the write-off costs of Bastion trademark in amount of 0.6 million euros. In the retail market, costs have remained at the previous year's level, precisely because of the closure of inefficient stores. Distribution costs at headquarter have increased by 9% i.e 0.5 million euros due to new positions created for the implementation of Strategy 2022, increased rental costs and the write-off costs related with Bastion trademark. Administrative expenses were 2.4 million euros, decreasing by 1% compared to the previous year. In 2018, the ratio of marketing and administrative costs to sales revenue was 53.6% (2017: 48.5%). The sharp decrease in sales revenue and the inability to reduce fixed costs at the same has worsened the marketing and administrative costs to sales revenue ratio by 5.1 percentage points.

Financial expenses increased by 6% i.e 0.03 million euros in 2018 compared to the previous year and were 0.5 million euros. Baltika Group's net loss of 2018 was 5.1 million euros, net profit for 2017 was 0.06 million euros.

FINANCIAL POSITION

As at 31 December 2017, Baltika Group inventories totalled 10.7 million euros, increasing 0.2 million euros compared to last year-end. Decrease is due to decrease of finished goods and goods purchased for resale.

Tangible and intangible assets as at 31 December 2018 amounted to 2.4 million euros (31.12.2017: 3.9 million euros). Investments in fixed assets were made at 0.6 million euros (2017: EUR 0.5 million). Total depreciation of tangible and intangible assets was 1.1 million euros (2017: 1.2 million euros).



As at the end of 31 December 2018, the total debt of Baltika Group was 9.0 million euros, which, together with the change in the overdraft, increased by 2.3 million euros compared to the end of the previous year (31.12.2017: EUR 6.7 million). The increase in debt obligations is due to the loan received in the amount of 1 million euros and increased use of overdraft, of which balance increased by 1.7 million euros. The accumulated interest debt on K-bonds issued in 2017 increased by 0.3 million euros.

As at 31 December 2018, the Baltika Group's net debt (interest-bearing debt less cash and cash equivalents) was 8.6 million euros, which is 2.6 million euros more than at the end of the previous year. The net debt to equity ratio was at 31 December 2018 12 785% (31.12.2017: 115%). The net debt to equity ratio has deteriorated due to increased borrowings, negative financial results and one-off costs. The company's liquidity ratio has dropped from 1.8 to 0.9 in a year.

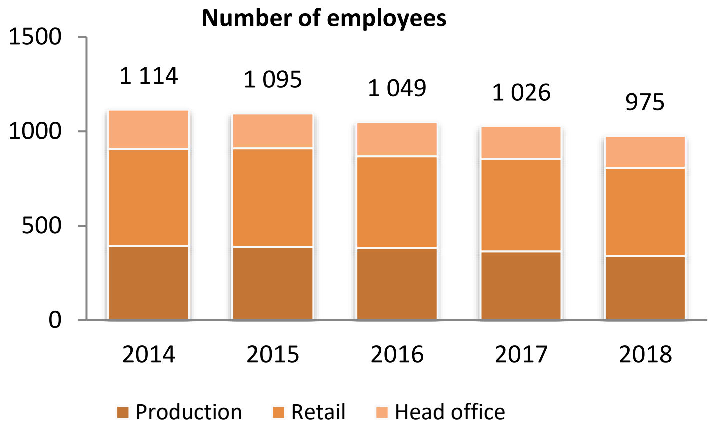
As at 31 December 2018, the equity attributable to equity holders of the parent company was 0.06 million euros (31.12.2017: 5.2 million).

CASH FLOWS

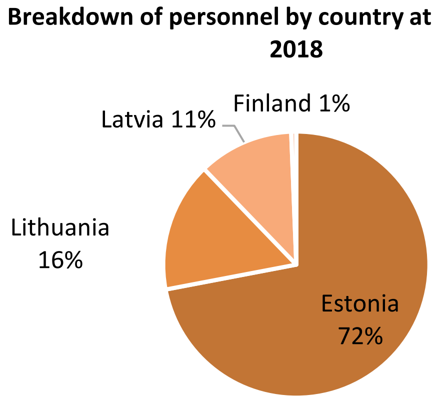
In 2018 Baltika Group`s cash flow from operating activities was -1.6 million euros, decreasing 3.3 million euros compared to last year. The decrease in cash flow is due to a decline in sales, increased receivables from buyers and an increase in inventory volume. Cash flows from investing activities 0.6 million euros was directed to retail channel (2017: 0.4 million euros). Loans were repaid in the amount of 0.7 million euros to credit institutions during the year and, together with the overdraft, a loan of 2.7 million euros was received (in 2017, bank loans with overdraft decreased by 1.8 million euros). The Baltika Group's total cash flow was -0.3 million euros (2017: 0.3 million euros), which resulted in cash balance of 0.4 million euros at the end of the year.

PEOPLE

As at 31 December 2018 Baltika Group employed 975 people that is 51 people less than as at 31 December 2017 (1,026).



Baltika Group employees' remuneration expense in twelve months amounted to 14.2 million euros (2017: 14.0 million euros). The accrued remuneration of the member of the Supervisory Board and Management Board totalled 0.3 million euros (2017: 0.3 million euros).



Baltika Group`s Strategy 2022 focuses on customer experience-based sales and marketing management. In this context, the customer experience division, which is headed by Mari-Liis Küppar as sales and marketing director, has been established since 1 January 2019. Mari-Liis Küppar joined Baltika Group`s team as marketing and communications manager in December 2017. The new division is responsible for managing sales and marketing across all customer segments and channels and developing customer experience for their customers.

OUTLOOK AND OBJECTIVES FOR 2019

Economic environment

Eesti Pank forecasts that Estonian economy will grow ca 3.5% in 2019, which is on same level as last year. In Estonia, labour cost growth has been one of the fastest in Europe, and wage pressures will continue to rise in 2019 due to a shortage of labour. As a result, the fixed costs of companies are rising, and in order to maintain competitiveness in both internal and export markets, it is necessary to invest more in efficiency.

For Latvia and Lithuania, the expectations for 2019 are relatively similar to Estonia: economic growth will remain at around 3%. Households' incomes and domestic demand remain strong, increasing the purchasing power of workers. At the same time, in the context of a rapid rise in consumer prices, moderate private consumption growth and continued savings are projected.

These events may have a significant impact on Baltika Group's future operations and financial position, but their potential impact is difficult to estimate. The future economic situation and its impact on Baltika Group's operations may differ from the expectations of management board.

Baltika Group

The main goals of 2019 are to maintain the sales volume in Baltic retail market at 2018 level and to implement a new business model which focuses on simplifying business processes and reducing operating costs.

The main parts of action plan are:

- **Brand portfolio optimization.** In the Mainstream segment, Monton, Mosaic and Bastion will be merged into one brand from the season 2020 spring-summer. The leading brand in the Mainstream segment will be Monton, whose value proposition will be matched to the expanded target segment and increased customer expectations.
- **Optimization of sales channels.** In the future, the focus will be on the Baltic retail market and e-channel, which will make the product development process more efficient. The store network is analyzed according to the new brand portfolio and focus goes on the best locations in the best centers. The business customers' sales channel continues only with the partners whose purchasing process is in accordance with Baltika Group's product development schedule.
- **Digitization.** The goal is to make business processes easier, faster and more efficient. Step by step, the latest digital tools are being deployed - 3D model in product development, physical sample free sales process, artificial intelligence in inventory management, and digital solutions for customer service. Focus also goes on evolving the international design and product development and on increasing sales and marketing capabilities.
- **Changing your procurement base.** In 2019, the production in Baltika Group's production units in Estonia will be dissolved and we will start purchasing sewing services from our partners.

With the transition to an optimized brand portfolio, significant simplification of business processes and dissolution of production in Estonian unit, Baltika Group's operating costs will be reduced by two million euros over the next 12 months.

In order to implement the action plan, Baltika Group needs shareholders support in the form of additional capital. The Supervisory Board of AS Baltika proposes to the Annual General Meeting to issue new emission of shares in the amount of 5.0 million euros, of which 3.0 million euros is for covering the losses and 2.0 million euros for the implementation of the company restructuring.

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 Group contributes to the development of socially important areas through various projects. The environmental parameter has been integrated into the Baltika 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 Group.

EMPLOYEES

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

As at 31 December 2018, Baltika employed 975 people, which is 51 people fewer than on 31 December 2017 (1,026). In total, 467 people worked in retail (31 December 2017: 488), 339 in production (31 December 2017: 363) and 169 at the headquarters and the logistics centre (31 December 2017: 175).

The personnel of Baltika Group in 2018:

- 5% men and 95% women;
- 43.7 years is the average age in Baltika Group, thereof 51 years in the production units;
- The average length of service in Baltika Group is 11.0 years. The employees of the production units have the greatest length of service – 20 on the average. The employees of the Latvia retail organisation have the shortest average length of service – 3.7 years;
- People of 10 different nationalities work at Baltika's headquarters.

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

2018 Consolidated Annual Report (in thousands of euros)

Baltika Group's personnel by units

	Personnel 31 Dec 2018	Share %	Men (%)	Women (%)	Started working in 2018	Left during 2018
Baltika AS	169	17.3%	3.0%	14.0%	39	47
Baltika Tailor OÜ	339	34.8%	1.0%	33.7%	28	56
Retail, thereof	467	47.9%	1.0%	46.9%	252	275
Estonia	194	19.9%	0.4%	19.5%	86	96
Lithuania	154	15.8%	0.1%	15.7%	93	100
Latvia	113	11.6%	0.3%	11.3%	72	77
Finland	6	0.6%	0.2%	0.4%	1	2
Baltika Group	**975**	**100%**	**5%**	**95%**	**319**	**378**

Baltika Group's personnel by markets

	Personnel 31 Dec 2018	Share %	Men (%)	Women (%)	Started working in 2018	Left during 2018
Estonia	702	72.0%	4.5%	67.5%	153	199
Lithuania	154	15.8%	0.1%	15.7%	93	100
Latvia	113	11.6%	0.3%	11.3%	72	77
Finland	6	0.6%	0.1%	0.5%	1	2
Baltika Group	**975**	**100%**	**5%**	**95%**	**319**	**406**

Changes in organizational structure based on Baltika Group`s strategy

Baltika Group's new strategy focuses on customer experience based sales and marketing management. In connection with this, since August 2018, the marketing and communications department became the customer experience division. The implementation of the structure brought with it new activities and the need for new competencies to enhance the quality offered at customer contact points. The task of the new division is to manage sales and marketing across all customer segments and channels based on customer experience. When planning activities, the brand is prioritized and the work is managed by matrix principle. Thus, the manager of customer experience is responsible for the brand's results across all channels and channel managers (retail, business customers, and e-store sales), in turn, are responsible for all brands in their channel.

From January 2019, Baltika Group`s largest sales channel, retail, management was brought under unified management, for ensuring the common operation model and effective cooperation. A new position, head of retail, was created, who is responsible for coordinating operations in the Baltic and Finnish retail markets with the aim to implement Baltika Group`s retail strategy.

Due to the reorganisation of the brand portfolio, new collection teams started from January 2019.

Along with changes in the organizational structure, the ways of working have changed. Working in project teams is increased and more than ever matrix management is used. The structure and frequency of meetings have been updated. The use of technological solutions to hold meetings and store important information has increased.

Emloyee satisfaction and motivation

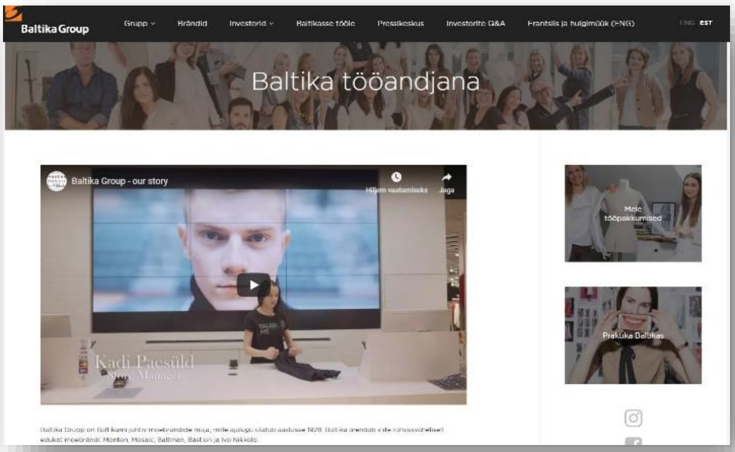
For Baltika Group, employee satisfaction and motivation and the brand of the employer remained important areas. In 2018, Baltika Group continued to implement its values that were renewed a year earlier. Baltika Group`s Values: "Thinking Without Borders", "Creating Solutions", and "Together Anything is Possible" brought to workers in workshops, where everyday situations were solved by values. Over the past two years, values have been used closely by Baltika Group`s people, helping to make decisions and supporting employees in their daily activities. In addition, the value proposition created by the employer was updated in 2017, which was supplemented on the side of both the retail organization and the head office.

In 2018, the implementation of processes that were important for the development and motivation of the employees were continued. The new employee induction program has been upgraded, based on feedback from new employees which is already collected for the third year. The collection of feedback from leaving employees will also continue. Feedback from new and leaving employees is the basis for making improvements to existing processes.

In 2018, Baltika Group`s internal rules were updated and brought into line with the new European General Data Protection Regulation that entered into force in May. Corresponding changes in the internal rules were made in all Baltika Group`s companies.

Recruitment

Baltika Group is actively engaged in recruiting and training employees, increasing motivation and satisfaction, and strengthening the brand of the Baltika Group as an employer. In 2018, new sub-page for Baltika Group as the employer was created. The website introduces Baltika Group as an employer and shares people's success stories. It also introduces internships to ensure successive occupations and distribute active recruitment announcements. Social media is still used as a recruitment channel, including the use of the LinkedIn environment as a recruitment portal. It is important that both potential and existing employees find information about the company quickly and conveniently.



To ensure the growth of future generation for the company, Baltika Group 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 Group has every year many students as an interns, who very often will become new employees. In 2018, Baltika Group had nearly 30 interns, three continued as the new employees. Starting from 2016, to appreciate the brightest ones, Baltika Group has nominated interns to the intern competition called Intern Cum Laude organized by The Estonian Employers' Confederation, where they always have received recognition.

In 2018, several new positions were created and implemented to support the development of the company and implement the strategy: Customer Experience Manager, Head of Digitalization, Sales and Marketing Manager of e-store, Creative Director. The posts are filled with professionals in the field who bring new experience to Baltika Group.

Photo: Examples of renewed recruitment advertisements (Online Sales and Marketing Manager, Customer Service Specialist, Sewing Line Manager

2018 Praktik Cum Laude`s intern Jaana Rodima and Baltika Group`s Technical Design Manager Jaana Ruhno

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 Group acknowledges and takes those risks into consideration in its everyday activities, as evidenced by the small number of work accidents.

Every Baltika Group`s 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 2018 there were no industrial accidents registered in Baltika Group.**

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 answers. Purpose of the satisfaction survey is to get feedback and input for company's strategic decisions concerning employees. Survey, organized in 2017 was the last one. Next survey will be organized in February 2019.

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

Baltika Group values its people and places great importance on the training and development of employees. Employees will be provided with knowledge of both retail management, negotiation, and more general economic and management issues. In 2018, all Baltika Group`s employees were once again offered the opportunity to take part in the Nordic Business Forum, a leading business conference. It was possible to follow a live broadcast in two large meeting rooms of the main building.

In 2018, Baltika Group once again issued an internal scholarship. The aim of the scholarship is to support the acquisition of new skills and knowledge that will add value to the company.

The acquisition of new competencies also helps to support the implementation of the company's strategy and the achievement of business goals and enables the employees to develop. A new round of application for scholarships will take place in spring 2019.

In 2018, a new series of events called Moekolmapäevak was launched, which invites to listen and discuss topics related to the fashion sector. Throughout the year, seven educational and inspirational events were held, including topics such as “The Circle Economy in Fashion Industry - Developments, Challenges and Opportunities”, “Brand, Product and Sales Environment and the Company as a Tool for Mission Execution!”, “Design Thinking in the Clothing Store” and several other interesting topics . For the third year, staff exchange projects were also taking place in the Shop Day and Office Day, during which the employees of the head office get acquainted with the daily work of the stores and vice versa. Twice a year, before the new collection is launched, all Baltika Group`s four home markets (Estonia, Latvia, Lithuania and Finland) will receive training for the new collection. Training and development needs are mapped once a year by Baltika Group.

Baltika Group values involving its own people and sharing their experience. Employees have the opportunity to participate in a variety of corporate workgroups - for example, Baltika Group`s New Year event is created with a team of people from very different backgrounds across the company, and newcolleagues are involved who are interested in organizing Health Days. Collaboration is also one of Baltika Group`s values – “Together Anything is Possible”.

Baltika's doors are always open to visitors - various groups of students who want to become acquainted with Baltika Group as a company and industry are welcome all year around. Interest in Baltika Group is wide – visitors are students from high school as well as university students, e.g from EKA, Tallinn University of Applied Sciences, EBS, etc. In addition, doors for employees' children were also opened in 2018, and Baltika Group joined the invitation of the Estonian Chamber of Commerce and Industry to “Work together”, during which the company was introduced to its employees` children from 7-9 grade. In 2019 it is also joined with the invitation.

- **In 2018 around 78% of Baltika Group’s employees took part from training and development activities (incl. new collection introduction).**

Own employees`children in Baltika

Office Day: stores emloyees at office

Helene Vetik in Moekolmapäevak: “Branding DIY”

In addition to improving professional skills, Baltika Group pays special attention to increasing the health awareness of its employees. From 2016 twice a year Baltika Group is organising a Health Week (in spring and autumn). Various events take place during the week to raise employees' awareness of health and encourage more active lifestyles. The topics covered in the 2018 Health Days were, for example, active movement, eye health, and the link between mental health and nutrition. Participation in the Health Week has increased every time, and volunteers are included in the arrangement.

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;
- Baltika Group supports its unique pensioners club.

Health Week in Baltika Group 2018

Congratulating Baltika Group`s 2018 senior employees at the New Year party

The year 2018 was Baltika Group`s birthday, celebrating its 90th anniversary. During the birthday year, various events took place for the employees across the group. The events included both current and former 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 Group also complies with all the norms established by law in its home markets.
- Retail Operations Manual. The document contains complete information about the group, 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 Group`s own retail stores.
- Monthly, Retail Council meeting is held, which includes the heads of Baltika Group’s three retail markets, the Group’s Financial 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 2018, several processes leading to greater customer focus were launched in the organization.

- In August 2018, the Customer Experience Division was established to provide the best customer experience at all points of contact. The Customer Experience Division consists of mainstream and premium customer experience managers, marketing department, e-store sales and marketing manager, customer support, display and photo team.
- A new needs-based retail concept was developed and the first store in Tallinn, T1 Mall of Tallinn, was opened on 9th of November. In the new concept, the products in the store are grouped based on the

customer needs, i.e according to the situation in which the clothes are needed. During the first months, the store proved to be particularly popular among men, who thought it was easier to find the clothes, which were grouped this way.

- Based on the updated product development process, the collection is developed in a close collaboration with the customer experience and marketing team. In addition to retrieving feedback, customers are gathered with information on the different steps in the development process, between design and product sales. The first collection developed 100% under the new process will be available for sale in early 2020.
- As part of the product development process, an updated marketing process was also introduced to ensure brand integrity, ensuring easy and consistent comprehension of the distribution and display of the collection to customers across retail markets. In order to ensure the operation of the process, the cooperation between the Baltika Group's customer experience department and the retail sales organization was also strengthened.
- Feedback surveys were carried out in March 2018 among Monton, Mosaic, Ivo Nikkolo and Baltman loyal customers to provide valuable information on loyal customer buying behavior, product price, quality, suitability, etc.
- The development of updated service standards has been started and an action plan has been drawn up to determine the role of all Baltika Group employees in providing a better customer experience.

Everyday feedback on products and collections given by customers regarding Baltika Group`s customer service personnel reaches the headquarter 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 Group`s 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 Baltika Group 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 2018 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. To ensure this, Baltika Group's expectations for its suppliers are described in the Supplier Manual. In establishing the principles, Baltika Group has been guided by the International Code of Ethical Trading Initiative (ETI), established by the International Labor Organization (ILO).

These principles cover different aspects of human rights, including:

- standardization of working time
- ensuring safe and hygienic working conditions
- ensuring fare pay
- prohibition of discrimination
- banning child labour

In order to ensure compliance with human rights, Baltika Group`s employees conduct audits among the existing and potential new suppliers, followed by a report and verifying that the partner is implementing the improvements

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 2018 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 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 Group`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 2018 to inspire and recognise a new generation of fashion designers. Those fashion events included Fashion Plane, Estonian Fashion Festival, 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 has supported the Estonian Olympic Committee since 2004, when Monton's designers have created clothing for the Olympic Games for Estonian athletes. Specifically designed for the Olympic Games, Estonian athletes have been wearing in Athens, Turin, Beijing, Vancouver, London, Sochi and Rio de Janeiro.

Created for the 2018 Pyeongcang Winter Olympics, the Monton Collection "1918" won recognition and received positive attention from athletes and sports lovers.

In addition to long-term cooperation with the Estonian Olympic Committee, Monton has been supporting Estonia's most successful student company for several years. The best student company in Estonia, 2018, was sEST, which combines in its handcraft jewellery authentic Estonian nature, such as lichens, leaves, bogs and other wildlife.

Photo: In the Monton Olympic Collection, Anette Veerpalu and Kristjan Ilves stepped up

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.

Photo: AERODIUM project

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 2018, a collaborative project with wind tunnels AERODIUM was completed, during which a series of internationally recognized photos was made. In addition, Baltman will continue to support the national symphony orchestra in Latvia, dressing up a 100-member orchestra in Baltman suits. The Latvian National Symphony Orchestra was founded in 1926. The 100-member top musician community is highly appreciated both nationally and internationally. They represent both Latvia and the Baltics perfectly with their nearly 250 performances per year.

In 2018, Baltman continued its partnership with the most successful athletes in the country. Baltman became a supporter of the Lithuanian National Basketball Federation. All Federation members and coaches wear Baltman suits when dealing with the media or in other official occasions. From 2018, Baltika Group`s biggest suit - basketball legend Arvydas Sabonis, who is President of the Federation - was created in cooperation. Arvydas Sabonis is 2 meters and 21 centimeters tall, and carries the suit number 68.

Photo: President of the Lithuanian Federal Basketball Federation Arvydas Sabonis

Mosaic

In 2018, Mosaic continued to work with the Estonian National Volleyball Team and the basketball club BC Kalev Cramo. Mosaic's comfortable suits are carried by coaches and support teams teams to maintain a chic look even in the most intense match.

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 production units. 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 environmental issues as

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 addition, Baltika Group has abandoned the distribution of free hangers and plastic bags in its stores to reduce the consumption of plastic articles in the Baltic States. As the Baltika Group supports long-lasting clothes, it is possible to buy a hanger or plastic bag for the purchased product. In case of suits, it is especially important to keep the jacket on the correct hanger including bringing it home from the store, therefore the hanger is included to maintain the quality while transporting.

PRODUCTION AND SUPPLY CHAIN MANAGEMENT

Baltika Group values suppliers as its strategic partners. With many suppliers the cooperation has been done for many years, therefore partners know each other very well. A large part of Baltika Group`s production is completed in Estonia, the rest of production takes place in the Far East, Turkey and Europe (Latvia, Lithuania, Italy).

Baltika Group 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 Group conduct audits 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 Group, many partners have implemented environment management systems and/or quality certificates (e.g. Oekotex).

Photo: Baltika Group`s production and logistics centres in Tallinn, Estonia

PRODUCTS AND QUALITY

The high quality of products is very important for Baltika Group. 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 Group has professional employees, 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. In past years control is increased over suppliers' material technical documents that allows to eliminate fabrics not meeting quality expectation in early stages of product creation.

The finished goods are delivered by the suppliers to the Baltika Group's logistics center, where the products undergo quality control according to established rules.

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:

- At Baltika Group`s warehouse by the quality department
- At Baltika Group`s stores by employees (defects sustained during transport or handling in the store)
- 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 2017 and in 2018 in retail the figure remained within given range.

Eco-innovative solutions include usage of digital prints, which saves water and reduces pollution. With premium brands, it 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;

In addition to furniture and package material reuse the efficient usage of stock excess and existing materials is important as well. Thus, a precise material computation and overview of inventories is available: 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
- 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 2018 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 0.1 euros per share. In May 2018, the Annual General Meeting decided to reduce the nominal value of the share from EUR 0.2 to EUR 0.1, to cover losses from previous periods by a simplified method.

Ordinary shares

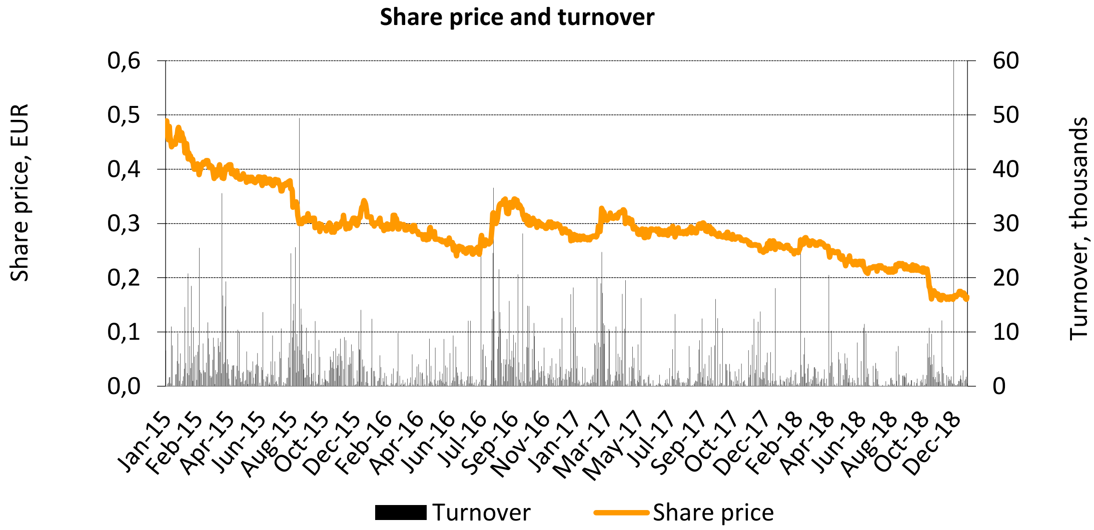
Baltika's ordinary shares are listed on the NASDAQ Tallinn Stock Exchange and carry equal voting and dividend rights. In the text below (the key share data, share price and trading figures, shareholder structure), any reference to AS Baltika's "share" or "shares" is a reference to ordinary shares unless 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: 0.1 euros
Votes per share: 1

Share price and trading

In 2018 the price of the Baltika share decreased by 36% to 0.164 euros, the Group's year-end market capitalisation was 6.69 million euros. During the same period, the OMX Tallinn All-Share Index decreased by 8%.



Share trading history

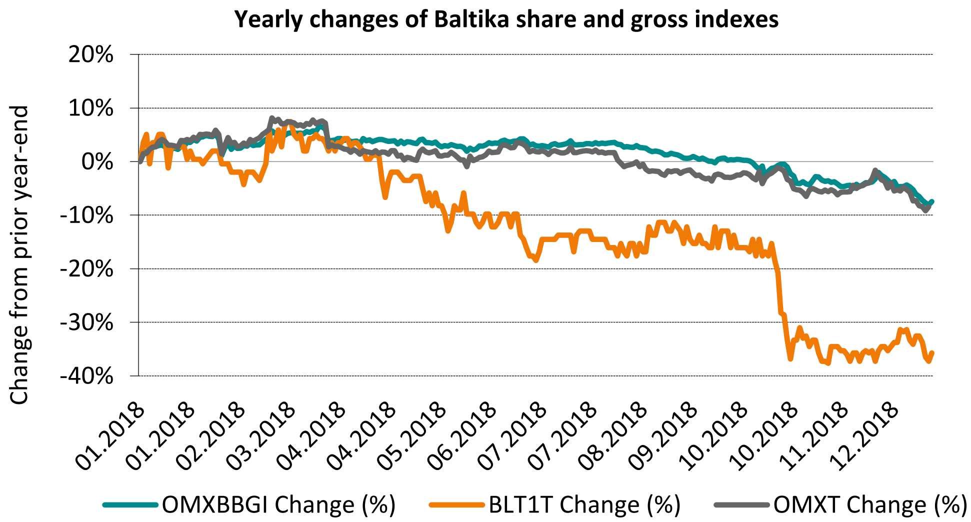
EUR	2014	2015	2016	2017	2018
High	0.629	0.49	0.35	0.33	0.28
Low	0.41	0.29	0.24	0.25	0.16
Average	0.49	0.36	0.29	0.29	0.22
Year-end price	0.462	0.34	0.28	0.25	0.16
Change, %	-16%	-26%	-18%	-10%	-36%
Traded volume	2,249,732	3 153 469	2,580,854	2,607,312	5,597,022
Turnover, in millions	1.16	1.12	0.77	0.75	1.04

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 2019 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



Shareholders structure

At the end of 2018, AS Baltika had 1,688 shareholders. The number of shareholders decreased by 67 during the 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 2018. The full list of shareholders is available on the website of the Estonian Central Securities Depository (www.e-register.ee).

2018 Consolidated Annual Report (in thousands of euros)

Largest shareholders as at 31 December 2018

	Number of shares	Holding
ING Luxembourg S.A. client	15,870,914	38.90%
Clearstream Banking Luxembourg S.A. clients	10,702,525	26.23%
Meelis Milder	1,000,346	2.45%
AS Genteel	977,837	2.40%
Luksusjaht AS	900,237	2.21%
Svenska Handelsbanken clients	870,000	2.13%
AB SEB Bankas clients	559,197	1.37%
OÜ Foonprojekt	458,304	1.12%
Others	9,455,490	23.19%
Total	**40,794,850**	**100%**

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

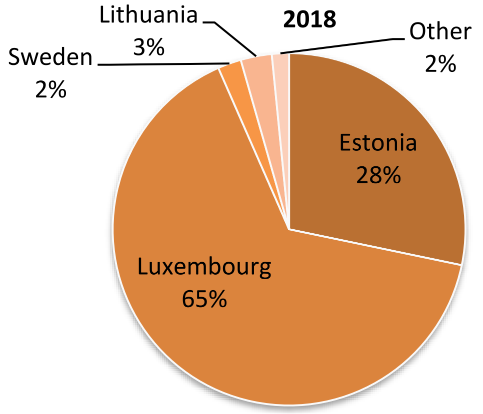
Shareholder structure by shareholder type as at 31 December 2018

	Number of shares	Holding
Management Board members, close family members and entities under their control	1,228,929	3.01%
Legal persons	32,828,622	80.47%
Individuals	6,737,299	16.52%
Total	**40,794,850**	**100%**

Shareholder structure by size of holding as at 31 December 2018

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	2	0.12%	26,573,439	65.13%
1,0 - 10,0%	7	0.42%	5,192,924	12.73%
0,1 - 1,0%	70	4.20%	5,050,880	12.38%
< 0,1%	1,589	95.26%	3,977,607	9.75%
Total	**1,668**	**100%**	**40,794,850**	**100%**

Shareholder structure by country at 31 December 2018



Share capital

As at 31 December 2018 Baltika had 40,794,850 shares with nominal value of 0.1 euros per share.

According to the Articles of Association, AS Baltika maximum share capital is 16 million euros.

2018 Consolidated Annual Report (in thousands of 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**
01/06/2018	Decrease of share nominal value				-4,080	-496
31/12/2018				**40,794,850**	**4,079**	**0**

Dividends

According to Baltika Group dividend policy no dividends will be paid until Baltika 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 Baltika Group's cash flows, development prospects and funding needs.

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

Baltika Group ended 2018 with a consolidated net loss of 5.1 million euros. The Management Board of Baltika Group 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 16, 2018, 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 members of Supervisory Board Lauri Kustaa Äim and Reet Saks, who 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 16, 2018 the profit distribution was discussed and decided as a separate item on the agenda.

CGC Article 2.2.5.

The management board member's bonus system, which is related to the issuer's security, as well as changes in such bonus system, is approved by the general meeting of the issuer. The term of execution of share options issued to the members of the Management Board shall be determined by the general meeting of the issuer. Upon issuance of share options, the issuer proceeds from the rules of the Tallinn Stock Exchange.

At Baltika's General Meeting on May 16, 2018 share option program for key persons of AS Baltika and companies belonging to the same group, including members of management and managers, was discussed and approved. As part of the share option program, AS Baltika issues up to one million share options. Each share option entitles the holder of the share option to acquire 1 (one) share of the company. The issue price of the shares to be acquired under the share option is 0.10 euros per share. The new shares entitle to dividends from the financial year in which the shares were issued, provided that the list of persons entitled to receive dividends is not determined prior to the issue of the shares.

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 2018, the figure amounted to 0.25 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 16 May 2018 Annual General Meeting of Shareholders was issued also to the 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 2018 nor 2017 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 Baltika Group. In 2018, two web seminar took place, Baltika Group introduced the results of the fourth quarter and twelve months of 2017 on March 7th 2018 and the results of second quarter and six months of 2018 on July 20th 2018.

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, Baltika Group 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 2018 was held on 16 May at 24 Veerenni in Tallinn, Estonia. A total of 22,364,183 shares were represented i.e. 54.82% 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 2017 annual report, profit allocation proposal for 2017, amendments to the articles of association, reduction of share capital, approval of the share option program and conditional increase of share capital and extension and remuneration of the members of the supervisory board.

Shareholders with significant share of Baltika's ordinary shares at the end of 2018 were KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account) (38.90%) and Clearstream Banking Luxembourg S.A clients (26.23%).

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.

The General Meeting of Shareholders on May 16, 2018 extended the mandate of the current Supervisory Board for the following 3-year term of office: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. On May 13, 2015, the Supervisory Board elected Jaakko Sakari Mikael Salmelin as 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 Group. 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 2018.

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 2018 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 2018 audit interim work.

Information in public interest entities Management report regarding services from auditor

During 2018, the auditor of AS Baltika has not provided the Group with a limited assurance engagement for the control of the packaging report, the tax advisory service or any other advisory services permitted under the Republic of Estonia Act on Auditing Activities.

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.

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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 three members: Chairman Meelis Milder, members Maigi Pärnik-Pernik and Mae Hansen.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik is the CFO and Mae Hansen is responsible for implementing Baltika Group`s operational plan for 2019 and 2020.

On August 21, 2018, the Supervisory Board decided to extend the mandate of Meelis Milder as a member of the Management Board from September 9, 2018 for the next three years. On March 14, 2019, the Supervisory Board decided to appoint Mae Hansen as a member of the Management Board of AS Baltika from of 22 March 2019.

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 November 2018 AS Baltika informed of following changes in substantial shareholding: with a purchase transaction of new shares on 30 November 2018 E. Miroglio Finance S.A. (on Clearstream Banking Luxembourg S.A. account) shareholding in AS Baltika has increased to 26.13 percentage. With a disposal transaction of shares on 30 November 2018 East Capital Asset Management S.A. (SEB S.A. Client Assets Ucitis) shareholding in AS Baltika decreased to 0 percentage.

Shareholdings of members of the Management Board at 31 December 2018

	Ordinary shares (listed)	
	No of shares	**Holding**
Meelis Milder	1,000,346	2.45%
Close family members of Management Board members	198,583	0.49%
Total Management Board members, close family members and entities under their control	**1,228,929**	**3.01%**
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 2018 consolidated financial statements as presented on pages 47 to 98.

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
20 March 2019

Maigi Pärnik-Pernik
Member of the Management Board
20 March 2019

2018 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	4	428	704
Trade and other receivables	5	866	2,055
Inventories	6	10,707	10,499
Total current assets		**12,001**	**13,258**
Non-current assets			
Deferred income tax asset	7	286	189
Other non-current assets	8	287	487
Property, plant and equipment	9	1,878	2,395
Intangible assets	10	543	1,513
Total non-current assets		**2,994**	**4,584**
TOTAL ASSETS		**14,995**	**17,842**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	7,829	1,309
Trade and other payables	13,14	5,934	5,984
Total current liabilities		**13,763**	**7,293**
Non-current liabilities			
Borrowings	12	1,165	5,363
Total non-current liabilities		**1,165**	**5,363**
TOTAL LIABILITIES		**14,928**	**12,656**
EQUITY			
Share capital at par value	15	4,079	8,159
Share premium		0	496
Reserves	15	1,107	1,345
Retained earnings		0	-4,872
Net profit (loss) for the period		-5,119	58
TOTAL EQUITY		**67**	**5,186**
TOTAL LIABILITIES AND EQUITY		**14,995**	**17,842**

The Notes presented on pages 52-98 are an integral part of these consolidated Financial Statements.

2018 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note	2018	2017
Revenue	16,17	44,691	47,459
Client bonus provision	17	0	16
Revenue after client bonus provision		44,691	47,475
Cost of goods sold	18	-23,155	-23,805
Gross profit		**21,536**	**23,670**
Distribution costs	19	-21,579	-20,630
Administrative and general expenses	20	-2,375	-2,387
Impairment loss of trade receivables	5,8	-2,229	0
Other operating income (-expense)	22	-16	-35
Operating profit (loss)		**-4,663**	**618**
Finance costs	23	-553	-521
Profit (loss) before income tax		**-5,216**	**97**
Income tax expense		97	-39
Net profit (loss) for the period		**-5,119**	**58**
Total comprehensive income (loss) for the period		**-5,119**	**58**
Basic earnings per share from net loss for the period, EUR	25	-0.13	0.00
Diluted earnings per share from net loss for the period, EUR	25	-0.13	0.00

The Notes presented on pages 52-98 are an integral part of these consolidated Financial Statements.

2018 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2018	2017
Cash flows from operating activities			
Operating profit (loss)		-4,663	618
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	18,19,20	1,756	1,230
Gain (loss) from sale, impairment of PPE, non-current assets, net		363	27
Other non-monetary adjustments		2,570	166
Changes in working capital:			
Change in trade and other receivables	5,7,8	-872	-64
Change in inventories	6	-517	597
Change in trade and other payables	13	-50	-633
Interest paid and other financial expense		-198	-267
Interest received		0	0
Income tax paid		0	0
Net cash generated from operating activities		**-1,611**	**1,674**
Cash flows from investing activities			
Acquisition of property, plant and equipment, intangibles	9,10	-635	-420
Proceeds from disposal of PPE		5	7
Net cash used in investing activities		**-630**	**-413**
Cash flows from financing activities			
Received borrowings	12	1,000	500
Repayments of borrowings	12	-632	-1,120
Change in bank overdraft	12	1,697	-983
Repayments of finance lease	12	-100	-201
Repayments of borrowings	12	0	-35
Redemption of share options	12	0	863
Net cash generated from (used in) financing activities		**1,965**	**-976**
Total cash flows		**-276**	**285**
Cash and cash equivalents at the beginning of the period	4	**704**	**419**
Cash and cash equivalents at the end of the period	4	**428**	**704**
Change in cash and cash equivalents		**-276**	**285**

The Notes presented on pages 52-98 are an integral part of these consolidated Financial Statements.

2018 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance as at 31 Dec 2016	**8,159**	**496**	**1,182**	**-4,872**	**4,965**
Loss for the period	0	0	0	58	58
Total comprehensive income	**0**	**0**	**0**	**58**	**58**
Value of conversion feature on convertible notes	0	0	163	0	**163**
Balance as at 31 Dec 2017	**8,159**	**496**	**1,345**	**-4,814**	**5,186**
Loss for the period	0	0	0	-5,119	-5,119
Total comprehensive loss	**0**	**0**	**0**	**-5,119**	**-5,119**
Reduction of the nominal value of the share	-4,080	-496	-238	4,814	**0**
Balance as at 31 Dec 2018	**4,079**	**0**	**1,107**	**-5,119**	**67**

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

The Notes presented on pages 52-98 are an integral part of these consolidated Financial Statements.

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 2018, Group had 94 Baltika's retail-stores in four markets - in the Baltics and Finland; and 23 franchise partners´ stores in Spain, Ukraine, Belarus, Russia and Serbia. As at 31 December 2018 Baltika Group employed 975 people (31 December 2017: 1,026).

The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange. Two largest shareholders holding more than 20% of shares (Note 15) of AS Baltika are KJK Fund Sicav-SIF (on ING Luxembourg S.A. account) and E. Miroglio Finance S.A (on Clearstream Banking 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 2018 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 2018 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 20 March 2019. 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 2018 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

Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. The application of IFRS 15 and IFRS 9 did not have any material effect on the Group's financial statements as at 1 January 2018.

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018). IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

2018 Consolidated Annual Report (in thousands of euros)

Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value with changes recognised in other comprehensive income (FVOCI) – debt investment;
- FVOCI – equity investment or fair value with changes recognised in profit or loss (FVTPL).

The following table explains the measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

in thousand euros	Classification under IAS 39	Carrying amount under IAS 39, as at 31 Dec 2017	Classification under IFRS 9	Carrying amount under IFRS9, as at 1 Jan 2018
Trade and other receivables	Loans and receivables	1,676	Amortised cost	1,676
Cash and cash equivalents	Loans and receivables	704	Amortised cost	704
Total financial assets		**2,380**		**2,380**

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Group has valued expected impairment loss, as at 1 January 2018 and according to valuation, impairment losses are not substantially higher than losses recognised under IAS 39 as at 31 December 2017.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied without restating comparative figures; impact on adoption has been recorded in initial balance sheet as at 1 January 2018. Figures as at 31 December 2017 are recorded under IAS 39.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. The Group has adopted IFRS 15 using modified retrospective approach which requires that the cumulative effect of initially applying this standard is recognised in retained earnings at the date of initial application (i.e. 1 January 2018) and the information presented for 2017 is recognised, as previously reported, under IAS 18, IAS 11 and related interpretations. There were no material impact of adoption of IFRS 15 to the retained earnings as at 1 January 2018, therefore no adjustments to the equity have been made. When assessing the effects of IFRS 15, the group analysed the different types of income of the Group and the loyalty program of the customers related to the revenue and assessed that the resulting effect on the Group's report is insignificant. The majority of the Group's sales revenue is the retail sale of goods for which there are no changes in recognition as a result of the entry into force of IFRS 15.

Effective Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018). 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.

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 2018 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 2019, and which the Group has not early adopted.

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 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.

The Group has reviewed all of the leasing arrangements in the tight of new lease accounting rules in IFRS 16. As at the reporting date, the Group had non-cancellable operating tease commitments of 19,713 thousand euros. Short-term leases and low value leases will both be recognised on a straight-line basis as expense in profit or loss.

Since the beginning of 2019, the Group has been applying a simplified transition approach and is not restating comparative amounts for the year prior to the first adoption. Lease commitments existing at the date of implementation that are recognised as operating leases are measured on transition at the discounted value of their remaining lease payments, using the effective interest rate as of 1 January 2019. Right-of-use assets are measured at the amount of the lease liability on adoption. Consequently, the liabilities and assets of the Group have increased by 18,083 thousand euros since 1 January 2019. The Group expects the net profit to decrease by approximately 339 thousand euros for 2019 as a result of adopting new accounting principles.

Adjusted EBITDA used to measure segment results is expected to increase by approximately 6,445 thousand euros, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately 12,890 thousand euros as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

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 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 and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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.

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

Accounting policies from 1 January 2018

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on 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 financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus (unless it is trade receivable that does not have a material financing component and is initially measured at transaction price), in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest rate method. Impairment losses are deducted from amortised cost. Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses).

As at 1 January 2018 and 31 December 2018 and during 2018, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

Impairment of financial assets

Impairment loss model is used for financial assets measured at amortised cost. Financial assets measured at amortised cost include receivables, cash and cash equivalents.

Expected credit losses are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive discounted at the original effective interest rate.

The measurement of expected credit losses shall take into account: (i) an unbiased and probability-weighted amount, the determination of which shall assess a number of possible different outcomes, (ii) the time value of the money and (iii) reasonable and justified information available at the end of the reporting period, without excessive cost or effort, on past events, current conditions and forecasts of future economic conditions.

The Group measures loss allowances as follows:

- for trade receivables at an amount equal to lifetime ECLs;
- for cash and cash equivalents that are determined to have low credit risk at the reporting date (the management considers 'low credit risk' to be an investment grade credit rating with at least one major rating agency) at an amount equal to 12-month ECLs;
- for all other financial assets at an amount of 12-month ECLs, if the credit risk (i.e. the risk of default occurring over the expected life of the financial asset) has not increased significantly since initial recognition; if the risk has increased significantly, the loss allowance is measured at an amount equal to lifetime ECLs.

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. Financial assets are adjusted for any loss allowance.

The impairment requirements are based on expected credit loss. The principle of the expected credit loss is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. Expected credit loss on financial assets measured at amortised cost are presented as allowances.

The assessment of expected credit loss shall be probability-weighted and incorporate all available information which is relevant to the individual assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. At the end of each reporting period the Group performs an expert based assessment of whether credit risk has increased significantly since initial recognition. Credit risk increase indicators include payments that are past due over 30 days, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation. The amount of the impairment loss is recognised in the statement of profit and loss within "Other operating expenses". When a receivable is uncollectible, it is written off against the allowance account for receivables.

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.

Accounting policies applied until 31 December 2017

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.

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, the Group had no other classes of financial assets than those classified under the category of 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.

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. 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, 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 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.

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 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

Accounting policies from 1 January 2018

Revenue is income arising in the course of the Group’s ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a good or service to a customer.

Retail sales

Revenue from the sale of goods is recognised at the time when a sales transaction is completed for the client in a retail store. The client generally pays in cash, by credit card or with bank transfer. The probability of returning goods is estimated at a portfolio level (expected value method), based on prior experience, and returns are recognised in the period of the sales transaction as a reduction of revenue, by recognising a contract liability (refund liability) and a right to the returned goods. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

The Group’s obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2017 and 31.12.2018 there is no material guarantee provision. If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Wholesale, franchise and e-commerce

Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the volumes of the returned goods has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Other

The Group provides sewing services with variable price based on hourly fee. Revenue is recognised in the amount to which the Company has a right to invoice. Customers are invoiced on a monthly basis or at the completion of works and consideration is payable when invoiced. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Financing component

Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

Client bonus provision

The Group operates a client loyalty programme where retail customers accumulate bonus-points for purchases made which entitle them to discounts on future purchases. Bonus-points expire after six months from the customer´s last purchase. A contract liability for the bonus-points is recognised at the time of the sale as a reduction of revenue and by recognizing related provision in the statement of financial position using estimates for probable redemption of bonus-points.

Accounting policies applied until 31 December 2017

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”.

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 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 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, from 1 January 2018, corporate income tax with a rate of

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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.

Corporate income tax rates

	2018	2017
Latvia	-	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), assessment of impairment non-current assets (Note, 9, 10), impairment testing of goodwill (Note 10) and assessment of trade receivables to Easter-European partners and allowance of impairment (Note 5).

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 8,717 thousand euros as at 31 December 2018 and 7,964 thousand euros as at 31 December 2017). 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 1,445 thousand euros as at 31 December 2018 and 1,914 thousand euros as at 31 December 2017). In relation of decision to close production units, the potential usage of raw materials is decreased and as at end of 2018 allowance for raw materials were made in amount of 309 thousand euros. Upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 107 thousand euros as at 31 December 2018 and 97 thousand euros as at 31 December 2017).

Assessment of impairment of non-current assets (Note 9 and 10)

At each balance sheet date, the appropriateness of depreciation rates, methods and the residual value is assessed. The main parts of the new operating plan are optimizing the brand portfolio, which leads to the uniting of Monton, Mosaic and Bastion under one brand, Monton, from spring 2020. In relation to that, impairment of Bastion trademark and assets related to it was recognised in amount of 574 thousand euros. According to new operating plan, Group’s production units will be closed during 2019, therefore impairment of production assets was recognised in amount of 116 thousand euros.

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. According to new plan, that was approved by Council in 14th March 2019, production will be dissolved in Baltika Group's Estonian production units during 2019. As the unit will no longer generate cash flows, Baltika Tailor’s goodwill in amount of 355 thousand euros was derecognised. Impairment testing of goodwill refer to Note 10.

Assessment of trade receivables to Eastern-European partners and allowance of impairment (Note 5)

As the complex economic and political situation in Ukraine and Russia has caused a significant decrease in sales volumes and solvency of Baltika’s franchise partners on these markets, AS Baltika decided to terminate franchise agreements before the end of their period of validity, in 2019. Besides that, in the business customers` sales channel, Group favours the cooperation with partners whose purchase process is in accordance with Baltika Group's product development schedule. As the result, at the end of 2018, all receivables to Russian and Ukrainian franchise partners in the amount of 1,993 thousand euros were assessed as impaired.

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.

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Market risk

Foreign exchange risk

In 2018 and 2017 all sales were made in euros. The Group's foreign exchange risk is related to purchases done and amounts owed in foreign currencies. The majority of raw materials used in production are acquired from the European Union and goods purchased for resale are acquired outside of the European Union. The main currencies used for purchases are EUR (euro) and USD (US dollar).

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

Average rates	2018	2017
USD (US dollar)	4.54%	2.06%

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

Balance-sheet date rates	
USD (US dollar)	-4.53%

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. Foreign exchange risk arises only from trade payables (Note 13).

If the foreign exchange rates (USD) in relation to the euro as at 31 December 2018 had been up to 6% higher (lower), the impact on the net profit for the year would have been +/-78 thousand euros (2017: higher (lower) +/-65 thousand euros).

The assessment of foreign exchange rate sensitivity to the 2017 result was based on the assumptions that the reasonably possible fluctuations in USD/EUR does not exceed +/-6%.

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 2018	Impact 2017
Trade and other payables	-78	-65
Total	**-78**	**-65**

The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency.

Interest rate risk

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

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

Non-current borrowings in the amount of 1,165 thousand euros at 31 December 2018 and 953 thousand euros at 31 December 2017 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 2018 were subject to a fixed interest rate (31 December 2017: 4,445 thousand euros). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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In 2018, the 6-month Euribor increased from -0.271% at the beginning of the year to the year end -0.237%. In the beginning of 2019, Euribor average has been -0.235%. Business analysts estimate that Euribor will not rise in 2019 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 result for the year would have been 38 thousand euros lower (2017: 51 thousand euros post-tax profit lower). If the floating interest rates had been 0.1 percentage point lower, the post-tax result for the year would have been 4 thousand euros higher (2017: 2 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.

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 2018	31 Dec 2017
A	299	576
B	9	8
Total (Note 4)	**308**	**584**

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

Receivables

As at 31 December 2018 the maximum exposure to credit risk from trade receivables (Note 5) amounted to 397 thousand euros (31 December 2017: 1,839 thousand euros) on a net basis after allowances.

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

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.

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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 2018 was 1,666 thousand euros (31 December 2017: 3,363 thousand euros).

Financial liabilities by maturity as at 31 December 2018

		Undiscounted cash flows[1]			
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
Loans (Note 12)[2]	4,153	213	2,952	1,158	4,323
Finance lease liabilities (Note 12)	78	12	26	48	86
Convertible bonds (Note 12, 15)	4,763	0	4,994	0	4,994
Trade payables (Notes 13)	3,065	3,033	32	0	3,065
Other financial liabilities (Note 13)	22	22	0	0	22
Total	**12,081**	**3,280**	**8,004**	**1,206**	**12,490**

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**

[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. Today's Group's business model is expensive and the share of fixed costs is high, which makes it difficult to respond to external factors and demand. Therefore, Group is implementing changes in business model, management structure, procedures and information systems. Group is changing the procurement base and has decided to close its production units and significantly reduce the operating costs

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.

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The unavoidable risk factor in selling clothes is the weather. Collections are created and sales volumes as well as timing of sales is planned under the assumption that regular weather conditions prevail in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

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

Capital management

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

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

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

The Group monitors capital on the basis of net gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as interest carrying borrowings less cash and cash equivalents. The long term target for net gearing ratio is to keep it under 50%. The Group also monitors other ratios e.g. net debt to EBITDA and net debt to share capital.

At the end of the reporting period Group’s total equity was 67 thousand euros, which is significantly lower than requirement stipulated in Commercial Code. In order to comply with the law as at 31 December 2018, equity has to be at least 2,040 thousand euros. Equity deficit is the result of extraordinary allowances and impairment losses of trade receivables, inventories and non-current assets related to strategical decisions in amount of 3,583 thousand euros and negative operating result in 2018. In order to meet the net asset requirement set out in the Commercial Code, the Supervisory Board decided to propose to the general meeting of shareholders to increase in August 2019 the share capital by 5,000 thousand euros via public offering. KJK Fund, Sicav-SIF, the largest shareholder of AS Baltika, has confirmed its willingness to subscribe for new shares.

Net gearing ratio

	31 Dec 2018	**31 Dec 2017**
Total borrowings (Note 12)	8,994	6,672
Cash and cash equivalents (Note 4)	-428	-704
Net debt	8,566	5,968
Total equity	67	5,186
Net gearing ratio	**12785%**	**115%**

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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 2018 and 31 December 2017.

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

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

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 2018	31 Dec 2017
Cash at hand	120	120
Cash at bank and overnight deposits	308	584
Total	**428**	**704**

All cash and cash equivalents are denominated in euros.

For additional information, see also Note 3.

NOTE 5 Trade and other receivables

	31 Dec 2018	31 Dec 2017
Trade receivables, net	397	1,628
Other prepaid expenses[1]	205	181
Tax prepayments and tax reclaims, thereof	234	198
Value added tax	234	198
Other current receivables	30	48
Total	**866**	**2,055**

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[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 Dec 2018	Baltic region	Eastern European region	Other regions	Total
Not due	286	86	-9	363
Up to 1 month past due	4	0	13	17
1-3 months past due	8	0	7	15
3-6 months past due	0	0	0	0
Over 6 months past due	1	0	1	2
Total	**299**	**86**	**12**	**397**

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

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 2018, the Group has recorded an allowance for doubtful receivables of 2,353 thousand euros (31 December 2017: 170 thousand euros). The allowance is recorded for individual receivables that are estimated to be uncollectible. As at 31 December 2018, the allowance reserve is related to overdue balances from Eastern European region (31 December 2017: 155 thousand euros related to overdue balances from Eastern European region). The Group expects that the rest of the unimpaired not due and overdue balances will be recovered. Trade receivables allowance expense in 2018 was 2,229 thousand euros (2017: 0 thousand euros), including allowance expense in amount of 236 thousand euros for other non-current receivables, and was recognised in statement of profit and loss on line "Impairment loss of trade receivables".

All trade and other receivables are denominated in euros.

For additional information, see also Note 3 and 28.

NOTE 6 Inventories

	31 Dec 2018	31 Dec 2017
Fabrics and accessories	1 754	1 914
Allowance for impairment of fabrics and accessories	-309	0
Work-in-progress	107	97
Finished goods and goods purchased for resale	8 887	8 174
Allowance for impairment of finished goods and goods purchased for resale	-170	-210
Prepayments to suppliers	438	524
Total	**10 707**	**10 499**

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In addition to the allowance of impairment of 170 thousand euros (2017: 210 thousand euros) to reduce inventories to net realizable value, the Group recognised 142 thousand euros during 2018 (2017: 114 thousand euros) as an expense for stock-take variances and inventory write offs. Allowance for impairment of fabrics and accessories in amount of 309 thousand euros is related to closing production units in 2019. Impairment allowance and write-off costs were recognised in statement of profit and loss on line "Cost of goods sold".

For additional information, see also Note 2 and 28.

NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2018

	Total
Deferred income tax asset	
On tax loss carry-forwards	286
Total	**286**
Deferred income tax asset, net, thereof	**286**
Non-current portion	286
Deferred income tax income (-expense) (Note 24)	**97**

Deferred income tax as at 31 December 2017

	Total
Deferred income tax asset	-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**

[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 2018 and 31 December 2017 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.

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NOTE 8 Other non-current assets

	31 Dec 2018	31 Dec 2017
Non-current portion of lease prepayments[1]	287	276
Other long-term receivables	0	211
Total other non-current assets	**287**	**487**

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

In 2018, allowance of impairment for other long-term receivables were made in amount of 236 thousand euros (Note 5).

NOTE 9 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Total
31 December 2016				
Acquisition cost	**2,838**	**4,718**	**4,813**	**12,369**
Accumulated depreciation	-1,746	-4,310	-3,291	-9,347
Net book amount	**1,092**	**408**	**1,522**	**3,022**
Additions	176	83	238	497
Disposals	-17	-1	-50	-68
Depreciation	-390	-119	-547	-1,056
31 December 2017				
Acquisition cost	2,925	4,743	4,878	12,546
Accumulated depreciation	-2,064	-4,372	-3,715	-10,151
Net book amount	**861**	**371**	**1,163**	**2,395**
Additions	256	6	313	575
Disposals	-10	0	-3	-13
Allowance of impairment of PPE[1]	0	-105	-3	-108
Depreciation	-360	-120	-491	-971
31 December 2018				
Acquisition cost	2,988	4,634	4,909	12,531
Accumulated depreciation	-2,241	-4,482	-3,930	-10,653
Net book amount	**747**	**152**	**979**	**1,878**

[1]In relation of closing production units in 2019, Group assesses assets used in production by 108 thousand euros. Cost was recognised in statement of profit and loss on line "Cost of goods sold" (Note 15).

Details of assets acquired under finance lease terms are shown in Note 11 and more information of allowance of impairment of PPE in Note 28.

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NOTE 10 Intangible assets

	Licenses, software and other	Trade-marks	Goodwill	Total
31 December 2016				
Acquisition cost	**2,092**	**1,243**	**509**	**3,844**
Accumulated depreciation	-1,787	-381	0	-2,168
Net book amount	**305**	**862**	**509**	**1,676**
Additions	16	0	0	16
Amortisation	-135	-44	0	-179
31 December 2017				
Acquisition cost	**2,107**	**1,243**	**509**	**3,859**
Accumulated depreciation	-1,921	-425	0	-2,346
Net book amount	**186**	**818**	**509**	**1,513**
Additions	62	0	0	**62**
Disposals	-10	-572	-355	**-937**
Amortisation	-51	-44	0	**-95**
31 December 2018				
Acquisition cost	**2,092**	**1,243**	**154**	**3,844**
Accumulated depreciation	-1,905	-1,041	0	-2,946
Net book amount	**187**	**202**	**154**	**543**

Trademarks with a net book value of 202 thousand euros included acquired trademark Ivo Nikkolo (31 December 2017: 818 thousand euros included trademarks – Bastion and Ivo Nikkolo), which remaining amortization period is 8 years. In relation to new plan, that from spring 2020 unites Mosaic and Bastion under one single brand Monton, Bastion trademark impairment was recognised in amount of 572 thousand euros. Impairment loss was recognised in distribution expenses (Note 16).

According to new operating plan, Group's production units will be closed during 2019, therefore impairment of intangible assets used in production was recognised in amount of 8 thousand euros. Impairment loss was recognised in statement of profit and loss on line "Cost of goods sold" (Note 15).

Impairment tests for goodwill

The carrying value of goodwill as at 31 December 2018 in the amount of 154 thousand euros (31 December 2017: 509 thousand euros) is tested for impairment at each balance sheet date.

According to new 2019-2020 operating plan, production will be dissolved in Group's Estonian production units, Baltika Tailor's goodwill in amount of 355 thousand euros was derecognised. Impairment loss was recognised on line "Cost of goods sold" (Note 15).

The carrying amount of goodwill applicable to CGUs (cash generating units) of SIA Baltika Latvija was tested for impairment at 31 December 2018. 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.

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Key assumptions used for value-in-use calculations

	Baltika Tailor CGU		Baltika Latvija CGU	
Balance at 31 December	**2018**	**2017**	**2018**	**2017**
Carrying amount of goodwill	0	355	154	154
Growth in revenue[1]	-	2.6%	1.9%	2.5%
Terminal growth rate[2]	-	2.0%	2.0%	2.0%
Budgeted gross margin[3]	-	3.7%	56.4%	56.1%
Discount rate[4]	-	11.0%	11.7%	9.9%
Difference between recoverable and carrying amount	-	284	15,873	22,143

[1]Management determined average annual growth in revenue 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 2023.

[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 test of Baltika Latvija 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 m^2) were -4.9% the recoverable amount would have been equal to the carrying amount (31 December 2017: -5.5%). If the average annual gross profit margin was 41.9% the recoverable amount would have been equal to the carrying amount (31 December 2017: 40.1%).

Additional information on allowance of impairment of intangible assets is in Note 28.

NOTE 11 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31 Dec 2018	31 Dec 2017
Up to 1 year	5,979	5,311
1-5 years	8,588	8,443
Over 5 years	284	146
Total	**14,851**	**13,900**

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 2018, operating lease costs amounted to 7,977 thousand euros (2017: 7,654 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 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**
Additions	2	0	2
Depreciation	-76	-112	-188
Impairment	-105	-5	-110
At 31 December 2018			
Acquisition cost	**1,509**	**630**	**2,139**
Accumulated depreciation	-1,430	-463	-1,893
Net book amount	**79**	**167**	**246**

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 2018, the Group settled finance lease payments in the amount of 100 thousand euros (2017: 201 thousand euros).

NOTE 12 Borrowings

	31 Dec 2018	31 Dec 2017
Current borrowings		
Current portion of bank loans	697	575
Overdraft	2,334	637
Current portion of finance lease liabilities	35	97
Share options (Note 25)	4,763	0
Total	**7,829**	**1,309**
Non-current borrowings		
Non-current bank loans	1,122	875
Non-current finance lease liabilities	43	78
Convertible bonds, share options (Note 25)	0	4,410
Total	**1,165**	**5,363**
Total borrowings	**8,994**	**6,672**

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 632 thousand euros (2017: 1,120 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 553 thousand euros (2017: 499 thousand euros), including interest expense from borrowings or convertible bonds to related party (Note 15). Unused part of overdrafts was 1,666 thousand euros as at 31 December 2018 (31 December 2017: 3,363 thousand euros).

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

Changes in 2018

In December the repayment date of the overdraft agreement in the amount of 1,000 thousand euros was extended until July 2019.

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

As at 31 December 2018, liabilities related to K-bonds are reported as current in the amount of 4,763 thousand euros, including interests.

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 by the end of the year. See more in Note 15.

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 Dec 2018	**31 Dec 2017**
Nominal value of notes issued	4,445	4,445
Other equity securities - value of conversion rights	-163	-163
	4,282	**4,282**
Interest expense*	481	128
Current liability	**4,763**	**0**
Non-current liability	**0**	**4,410**

* 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 revalued.

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Interest carrying loans of the Group as at 31 December 2018

	Balance	Average risk premium
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	4,231	EURIBOR +3.7% or EONIA +3.8%
K-Bonds (Note 25)*	4,445	6.00%
Total	**8,676**	

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 25)*	4,445	6.00%
Total	**6,707**	

*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 2018 and 31 December 2017 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 2018 carrying amount of assets pledged was 13,215 thousand euros, including inventories in amount of 10,707 thousand euros, property, plant and equipment in amount of 1,878 thousand euros, intangible assets in amount of 202 thousand euros and cash on the bank accounts 428 thousand euros.

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 2017, AS Baltika complied with the terms and conditions of the bank loan agreements. As at 31 December 2018, AS Baltika did not comply with some of the terms and conditions of the agreements related to finance lease.

For additional information, see also Note 3.

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Changes in liabilities arising from financing activities

	31.12.2017	Cash flows	New leases	Other	31.12.2018
Current portion of long-term bank loans	**575**	-632	0	754	**697**
Bank overdrafts	**637**	1,697	0	0	**2,334**
Current finance lease liabilities	**97**	-100	0	38	**35**
Current portion of convertible bonds	**0**	0	0	4,763	**4,763**
Non-current bank loans	**875**	1,000	0	-753	**1,122**
Non-current finance lease liabilities	**78**	0	2	-37	**43**
Non-current portion of convertible bonds	**4,410**	0	0	-4,410	**0**
Total liabilities from financing activities	**6,672**	**1,965**	**2**	**355**	**8,994**

	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**

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 2018	31 Dec 2017
Current liabilities		
Trade payables	3,065	2,994
Tax liabilities, thereof	1,437	1,465
Personal income tax	148	189
Social security taxes and unemployment insurance premium	552	527
Value added tax	702	716
Other taxes	35	33
Payables to employees[1]	980	1,010
Other current payables	22	22
Other accrued expenses	5	36
Customer prepayments	94	126
Total	**5,603**	**5,653**

[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 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.

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Trade payables and other accrued expenses in denominated currency

	31 Dec 2018	31 Dec 2017
EUR (euro)	1,763	1,954
USD (US dollar)	1,308	1,076
Total	**3,071**	**3,030**

For additional information, see also Note 3.

NOTE 14 Provisions

Current provisions	31 Dec 2018	31 Dec 2017
Client bonus provision	331	331
Total	**331**	**331**

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 2018, client bonus provision remained unchanged (2017: reduced by 16 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 2018	31 Dec 2017
Share capital	4,079	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.10	0.20

As at 31 December 2018 and 31 December 2017 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 2017	**40,794,850**
Number of shares 31 December 2018	**40,794,850**

As at 31 December 2018, under the Articles of Association, the company's minimum share capital is 4,000 thousand euros and the maximum share capital is 16,000 thousand euros. As at 31 December 2017, under the Articles of Association, the company's minimum share capital was 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. As at September 2018 and 31 December 2017 all shares have been paid for.

Changes in share capital

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

Convertible bonds and share options

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

- K-bonds

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

Bonds were partly issued to a related party (720 bonds in the amount of 3,600 thousand euros), Note 26.

- Share option program

On 16 May 2018, the Annual General Meeting of shareholders decided to conditionally increase share capital by up to 1,000,000 registered shares with a nominal value of 0.10 euro subscription price of 0.10 euro related to the share option program. The share options are granted amongst others to the Management Board members and vest three years after signing the option agreement if the Baltika share price increase conditions are fulfilled.

Reserves

	31 Dec 2018	31 Dec 2017
Statutory reserve	944	1,182
Other reserves	163	163

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

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Shareholders as at 31 December 2018

	Number of shares	Holding
1. ING Luxembourg S.A.	15,870,914	38.90%
2. Clearstream Banking Luxembourg S.A. clients	10,702,525	26.23%
3. Luksusjaht AS	900,237	2.21%
4. Svenska Handelsbanken clients	870,000	2.13%
5. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	1,000,346	2.45%
Persons related to members of Management Board	228,583	0.56%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
6. Other shareholders	10,219,818	25.06%
Total	**40,794,850**	**100%**

Shareholders as at 31 December 2017

	Number of shares	Holding
1. ING Luxembourg S.A.	15,870,914	38.90%
2. Clearstream Banking Luxembourg S.A. clients	7,295,220	17.88%
3. 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%**

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

With a purchase transaction of new shares on 30 November 2018 E. Miroglio Finance S.A. (on Clearstream Banking Luxembourg S.A. account) shareholding in AS Baltika increased to 26.13 percentage. With a disposal transaction of shares on 30 November 2018, East Capital Asset Management S.A. (SEB S.A. Client Assets Ucitis) shareholding in AS Baltika decreased to 0 percentage.

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 wholesale, franchise and e-commerce). The retail segments are countries which have been aggregated to reportable segments by regions which share similar economic characteristics and meet other aggregation criteria provided in IFRS 8.

Description of segments and principal activities:

- Retail segment - consists of retail operations in Estonia, Latvia, Lithuania and Finland. While the Management Board reviews separate reports for each region, the countries have been aggregated into one reportable segment as they share similar economic characteristics. Each region sells the same products to similar classes of customers and use the same production process and the method to distribute their products.

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- 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**
2018 and as at 31 Dec 2018			
Revenue (from external customers)	38,416	6,275	44,691
Segment profit (loss)[2]	5,416	1,155	6,571
Incl. depreciation and amortisation	-865	-1	-866
Inventories of segments	4,273	0	4,273
2017 and as at 31 Dec 2017			
Revenue (from external customers)	39,476	7,983	47,459
Segment profit (loss)[2]	6,401	1,615	8,016
Incl. depreciation and amortisation	-931	-48	-979
Inventories of segments	3,902	0	3,902

[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

	2018	2017
Total segment profit	6,571	8,016
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-6,614	-4,976
Administrative and general expenses	-2,375	-2,387
Other operating income (expenses), net	-2,245	-35
Operating profit (loss)	**-4,663**	**618**

[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 2018	31 Dec 2017
Total inventories of segments	4,273	3,902
Inventories in Parent company and production company	6,434	6,597
Inventories on statement of financial position	**10,707**	**10,499**

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

	31 Dec 2018	31 Dec 2017
Retail	1,688	2,164
Assets in parent company and production company	733	1,744
Total	**2,421**	**3,908**

NOTE 17 Revenue and client bonus provision

	2018	2017
Sale of goods in retail channel	38,416	39,476
Sale of goods in wholesale and franchise channel	4,353	6,300
Sale of goods in e-commerce channel	1,707	1,468
Other sales	215	215
Total	**44,691**	**47,459**

Sales by geographical (client location) areas

	2018	2017
Estonia	20,054	21,154
Latvia	10,486	10,605
Lithuania	10,299	10,541
Russia	1,506	1,785
Ukraine	758	1,009
Austria	422	401
Finland	378	244
Germany	220	690
Belarus	162	235
Serbia	130	384
Spain	79	301
Other countries	197	110
Total	**44,691**	**47,459**

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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 2018 decreased remained unchanged (31 December 2017 decreased by 16 thousand euros). For further information about the assumptions used to form a provision, see Note 14.

NOTE 18 Cost of goods sold

	2018	2017
Materials and supplies	17,751	19,158
Payroll costs in production	3,525	3,609
Operating lease expenses (Note 11)	688	687
Impairment loss of assets used in production (Note 9, 10)[1]	471	0
Other production costs	380	399
Changes in allowance of inventories (Note 6)[2]	269	-130
Depreciation of assets used in production (Note 9)	71	82
Total	**23,155**	**23,805**

[1]In 2018, impairment loss of assets used in production includes impairment losses: of fixed assets in amount of 116 thousand euros, intangible assets in amount of 8 thousand euros and goodwill of production entity in amount of 355 thousand euros.

[2]Changes in allowance of inventories includes allowance of fabric and accessories in amount of 309 thousand euros that relates the plan of closing the production units in 2019.

NOTE 19 Distribution costs

	2018	2017
Payroll costs	9,494	9,216
Operating lease expenses (Note 11)	6,845	6,548
Advertising expenses	1,274	1,363
Depreciation and amortisation (Note 9,10)	965	1,083
Impairment loss of assets (Note 10)[1]	574	0
Fuel, heating and electricity costs	464	475
Municipal services and security expenses	389	344
Fees for card payments	216	235
Information technology expenses	239	183
Travel expenses	156	152
Consultation and management fees	126	136
Communication expenses	96	99
Other sales expenses[2]	741	796
Total	**21,579**	**20,630**

[1]In 2018, impairment loss of assets related to Bastion trademark was recognised in amount of 574 thousand euros.

[2]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

	2018	2017
Payroll costs	1,200	1,188
Operating lease expenses (Note 11)	444	419
Information technology expenses	209	194
Bank fees	111	136
Management, juridical-, auditor´s and other consulting fees	98	82
Fuel, heating and electricity expenses	64	64
Depreciation and amortisation (Note 9,10)	30	65
Other administrative expenses[1]	219	239
Total	**2,375**	**2,387**

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

NOTE 21 Wages and salaries

	2018	2017
Payroll costs	10,793	10,638
Social security costs	3,426	3,375
Total	**14,219**	**14,013**

In 2018, the average number of employees in Baltika Group was 1,004 (2017: 1,044).

NOTE 22 Other operating income (-expense)

	2018	2017
Gain (loss) from sale, impairment of PPE and immaterial assets	-8	-27
Other operating income	61	84
Foreign exchange gain (-loss)	-22	-97
Fines, penalties and tax interest	0	15
Other operating expenses	-47	-10
Total	**-16**	**-35**

For additional information, see also Note 9, 10.

NOTE 23 Finance costs

	2018	2017
Interest cost	-553	-499
Other finance costs	0	-22
Total	**-553**	**-521**

NOTE 24 Income tax

	2018	2017
Deferred income tax income (-expense) (Note 7)	97	-39
Total income tax income (-expense)	**97**	**-39**

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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 2018

	Total
Loss before tax	-5,216
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	97
Income tax expense	**0**
Deferred income tax income (-expense) (Note 7)	**97**

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
Changes in recognised balance sheet deferred tax assets	39
Income tax expense	**0**
Deferred income tax expense (Note 7)	**-39**

NOTE 25 Earnings per share

Basic earnings per share

		2018	2017
Weighted average number of shares (thousand)	pcs	40,795	40,795
Net profit (-loss) (thousands)	EUR	-5,119	58
Basic earnings per share	**EUR**	**-0.13**	**0.00**

Diluted earnings per share

Diluted earnings per share for the periods ended 31 December 2018 and 31 December 2017 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 2018 and 31 December 2017, the Group had no dilutive potential ordinary shares.

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

- J-bonds in 2017,
- K-bonds in 2017 and 2018,
- Share option program in 2017 and 2018.

The dilutive effect of the J-bonds and K-bonds was and is contingent on the share price. In 2018 and 2017, the Group assumption was 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 2018 and 2017.

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The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in 2018 was 0.22 euros (2017: 0.28 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	2018	2017
Services from entities under the control of the members of the Management Board and Supervisory Board	24	24
Total	**24**	**24**

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

Balances with related parties

	31 Dec 2018	31 Dec 2017
Borrowings and interests (Note 12, 13)	3,902	3,681
Total	**3,902**	**3,681**

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

Compensation for the members of the Management Board and Supervisory Board

	2018	2017
Salaries of the members of the Management Board	237	261
Remuneration of the members of the Supervisory Board	14	14
Total	**251**	**275**

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

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Changes in the Management Board in 2018

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

Changes in the Management Board in 2017

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

On 11 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 continued with two members: Chief Executive Officer Meelis Milder and Chief Financial Officer Maigi Pärnik-Pernik.

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 (2017: 234 thousand euros) in case of premature termination. During 2018, the Group did not pay any termination benefits (2017: 0 thousand euros).

During 2017 – 2018 no changes took place in the composition of Supervisory Board. No compensations for terminating Supervisory Board status were paid in 2017 - 2018.

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

In 2018 share option program was issued among others to the Management Board members (Note 15).

NOTE 27 Subsidiaries

Subsidiary	Location	Activity	Holding as at 31 Dec 2018	Holding as at 31 Dec 2017
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[2]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[2]	Lithuania	Retail	100%	100%
OY Baltinia AB	Finland	Retail	100%	100%
Baltika Sweden AB	Sweden	Dormant	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%

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

NOTE 28 Events after the balance sheet date

On March 14th, Supervisory Board approved the operational plan and one-off costs related with the plan

On 14 March 2019, the Supervisory Board of AS Baltika approved the 2019 and 2020 operational plan. With the transition to an optimized brand portfolio, significant simplification of business processes and closure of Estonian production units, Baltika Group's operating costs will be reduced by 2,000 thousand euros over the next 12 months.

In the *Mainstream* segment, Monton, Mosaic and Bastion will be united under one brand from spring 2020. The leading brand in the *mainstream* segment will be Monton, whose value proposition will be matched to the expanded target segment and customer expectations. In relation to that, assets related to Bastion trademark were assessed and impairment loss was recognised in amount of 574 thousand euros (Note 9, 10).

According new plan, production will be dissolved in Baltika Group's Estonian production units during 2019. For this reason, impairment losses were recognised in amount of 355 thousand euros for Baltika Tailor's goodwill, 116 thousand euros for non-current assets, 309 thousand euros for fabric and accessories (Note 6, 9, 10).

In the market view, the focus will be on retail and e-channel in the Baltics, which allows to make the product development process more efficient. In the business customers` sales channel, cooperation with partners whose purchase process is in accordance with Baltika Group's product development schedule will be continued. In connection with the above, in 2019 the agreement will be terminated with the Russian franchise partner OÜ Ellipse Group. Additional allowance of impairment of trade receivables from Russian partner was recognised in amount of 388 thousand euros and other region receivables in amount of 236 thousand euros (Note 5).

One-off costs related with the approved operational plan amount to 1,978 thousand euros, which will be recognised in financial year 2018. The amount of equity of AS Baltika in 2018 after the one-off costs is 67 thousand euros and it no longer complies with the requirement set out in the Commercial Code. In order to comply with the law, equity has to be at least 2,040 thousand euros.

Action plan in order to meet the net asset requirement set out in the law

For the implementation of the 2019–2020 operational plan and in order to meet the net asset requirement set out in the Commercial Code, the Supervisory Board decided to present to the general meeting of shareholders the proposal to increase the nominal value of the share to 1 euro and to exchange the existing shares so that for each 10 shares one new share is given. Thereafter decrease the nominal value of the share to 0.10 euros and decrease share capital from 4,079 thousand euros to 408 thousand euros to cover the losses. Additionally, it was decided to propose to the general meeting of shareholders to increase in August 2019 the share capital by 5,000 thousand euros via public offering.

The proposed resolutions of the general meeting of shareholders and procedure for examining these are published on 21 March 2019 in the notice for calling the general meeting of shareholders. KJK Fund, Sicav-SIF, the largest shareholder of AS Baltika, has confirmed its willingness to subscribe for new shares.

Financing in following months

The Supervisory Board gave the consent to the management board to take a loan of 3,000 thousand euros from KJK Fund SICAV-SIF in the next 2 months. The proposed loan will be carring 6% interest and short-term, with maturity in August 2019. The loan will be repaid from the funds received in the share issue. In case of short-term convertible bonds (K-bonds), which redemption date is in August 2019, ongoing negotiations with the principal bond holder (81% of K-bonds) with KJK Fund, Sicav-SIF regarding their refinancing with the aim of converting the amount payable for the bonds into a long-term loan.

New member of the Management Board

By the decision of the Supervisory Board made on 14 March 2019, Mae Hansen will be the third member of the Management Board of AS Baltika as of 22 March 2019. She will be responsible for implementing the above mentioned 2019–2020 operational plan. Meelis Milder and Maigi Pärnik-Pernik continue as members of the Management Board of AS Baltika.

NOTE 29 Going concern

During the year the Group suffered losses due to writeoffs, please see Note 28 „Events after the balance sheet date". As at 31 December, the total equity of the Group amounted to 67 thousand euros and it no longer complies with the requirement set out in the Commercial Code. In order to comply with the law, equity would have to be at least 2,040 thousand euros. Group's working capital is negative – as at 31 December 2018, current liabilities exceeded current assets by 1,762 thousand euros.

In order to meet the net asset requirement set out in the Commercial Code, on March 14th 2019, the Supervisory Board decided to present to the general meeting of shareholders the proposal to increase the nominal value of the share to 1 euro and to exchange the existing shares so that for each 10 shares one new share is given. Thereafter decrease the nominal value of the share to 0.10 euros and decrease share capital from 4,079 thousand euros to 408 thousand euros to cover the losses. Additionally, it was decided to propose to the general meeting of shareholders to increase in August 2019 the share capital by 5,000 thousand euros via public offering. The proposed resolutions of the general meeting of shareholders and procedure for examining these are published on 21 March 2019 in the notice for calling the general meeting of shareholders. KJK Fund, Sicav-SIF, the largest shareholder, holding 38.9% of shares of AS Baltika, has confirmed its willingness to subscribe for new shares pursuant to its proportion of holding and according to terms specified in the Prospectus, up to 5,000 thousand euros depending on usage of other participants' subscription rights. This means that KJK Fund, Sicav-SIF will also subscribe to shares which it is given additional subscription rights according to the allocation terms specified in the Prospectus and which are not subscribed by other shareholders.

Execution of the share issue under the above conditions will depend on the general meeting of shareholders, which will take place on 12 April 2019 and where the shareholders must approve the proposed action plans and the terms of the issue.

In order to finance working capital, a short-term loan agreement has been signed with KJK Fund, Sicav-SIF for 3,000 thousand euros. Loan with the repayment date in August 2019, will be taken into use in two tranches – 1,500 thousand euros in March 2019 and 1,500 thousand euros in April 2019. Receiving of the second tranche will depend on a positive decision of general meeting hold on 12 April, of share issuance. The loan will carry 6% interest and will be repaid from the funds received in the share issue. In case of short-term convertible bonds (K-bonds), which redemption date is in August 2019, ongoing negotiations with the principal bond holder (81% of K-bonds) with KJK Fund, Sicav-SIF regarding their refinancing with the aim of converting the amount payable for the bonds into a long-term loan. Bond liability is disclosed in Note 12.

Based on the above, there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. But the management believes, based on all the facts, that the Group's operations are ongoing and the report is prepared for going concern.

NOTE 30 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.

2018 Consolidated Annual Report (in thousands of euros)

Statement of financial position of the parent company

	31 Dec 2018	31 Dec 2017
ASSETS		
Current assets		
Cash and cash equivalents	31	177
Trade and other receivables	5,107	2,912
Inventories	6,484	6,673
Total current assets	**11,622**	**9,762**
Non-current assets		
Investments in subsidiaries	1,025	1,324
Other non-current receivables	0	211
Property, plant and equipment	152	172
Intangible assets	387	992
Total non-current assets	**1,564**	**2,699**
TOTAL ASSETS	**13,186**	**12,461**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	7,806	1,223
Trade and other payables	6,974	4,594
Total current liabilities	**14,780**	**5,817**
Non-current liabilities		
Borrowings	1,156	5,998
Total non-current liabilities	**1,156**	**5,998**
TOTAL LIABILITIES	**15,936**	**11,815**
EQUITY		
Share capital at par value	4,079	8,159
Share premium	0	496
Statutory reserve	1,107	1,345
Retained losses	-4,540	-9,409
Net profit for the period	-3,396	55
TOTAL EQUITY	**-2,750**	**646**
TOTAL LIABILITIES AND EQUITY	**13,186**	**12,461**

2018 Consolidated Annual Report (in thousands of euros)

Statement of comprehensive income of the parent company

	2018	2017
Revenue	31,255	31,898
Cost of goods sold	-23,221	-23,443
Gross profit	**8,034**	**8,455**
Distribution costs	-5,919	-5,406
Administrative and general expenses	-2,294	-2,301
Impairment loss of trade receivables	-2,229	0
Other operating income (-expense)	-344	-4
Operating profit	**-2,752**	**744**
Interest expenses, net	-644	-689
Net profit for the period	**-3,396**	**55**
Total comprehensive income for the period	**-3,396**	**55**

2018 Consolidated Annual Report (in thousands of euros)

Cash flow statement of the parent company

	2018	2017
Cash flows from operating activities		
Operating profit	-2,752	744
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	702	216
Other non-monetary expenses	2,869	142
Changes in trade and other receivables	-4,245	-195
Changes in trade and other payables	2,380	-445
Changes in inventories	-120	273
Interest paid	-291	-435
Net cash generated from (used in) operating activities	**-1,457**	**300**
Cash flows from investing activities		
Acquisition of non-current assets	-77	-16
Net cash used in investing activities	**-77**	**-16**
Cash flows from financing activities		
Proceeds from borrowings	1,000	1,167
Repayments of borrowings	1,299	-1,120
Change in overdraft balance	1,697	-983
Repayments of finance lease	-10	-11
Repayment of convertible notes	0	-35
Proceeds from convertible notes issuance	0	863
Net cash generated (used in) from financing activities	**1,388**	**-119**
Total cash flows	**-146**	**165**
Cash and cash equivalents at the beginning of the period	**177**	**12**
Cash and cash equivalents at the end of the period	**31**	**177**
Net change in cash and cash equivalents	**-146**	**165**

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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 2016	**8,159**	**496**	**1,182**	**-9,409**	**428**
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**
Total comprehensive income	0	0	0	-3,396	-3,396
Reduction of the nominal value of the share	-4,080	-496	-238	4,814	0
Balance at 31 December 2018	**4,079**	**0**	**1,107**	**-7,936**	**-2,750**
Book value of holdings under control or significant influence					-1,025
Value of holdings under control or significant influence, calculated under equity method					1,092
Adjusted unconsolidated equity at 31 December 2018					**67**

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.

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 2018, 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 2018;
- the consolidated statement of profit or loss and 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.

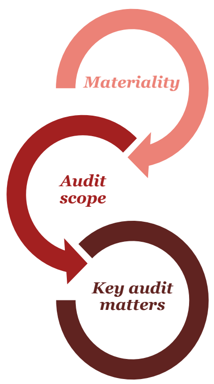
During 2018, we have not provided any non-audit services to the Group.

Material uncertainty relating to going concern

We draw your attention to the fact that the equity of the Group as at 31 December 2018 is below the amount required by the Estonian Commercial Code and the Group's current liabilities exceeded its current assets by 1.8 million euros. Group's ability to continue as a going concern is directly dependent on the additional financing. The management has disclosed its activity plan to secure additional financing and restore the compliance with the Commercial Code in Note 29 of the financial statements. This, along with other matters and the uncertainties set forth in Note 29, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Our audit approach

Overview



Materiality
Overall group audit 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 audit 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 2018, the Group recognised net revenue of EUR 44.7 million. Revenue consists mainly of retail revenue generated in shops in the amount of EUR 38.4 million and wholesale revenue from wholesale and franchise partners and e-commerce in the amount of EUR 6.1 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 assessed if Group had appropriately applied the guidance in the new revenue standard, IFRS 15 regarding accounting for revenue, including for returns and client loyalty programme.

<table>
<tr><td></td><td>

- 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.</td></tr>
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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 2018, the total carrying amount of inventories was EUR 10.7 million, including EUR 0.5 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.</td><td>

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.</td></tr>
</table>

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 contained in the annual report in addition to the consolidated financial statements and our auditor's report 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 21 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

20 March 2019

* *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 loss for the year ended at 31 December 2018 for 5,119 thousand euros to allocate as follows:

Retained earnings	-5,119
Total	**-5,119**

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 2018.

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
20 March 2019

Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Board
20 March 2019

Maigi Pärnik-Pernik
Member of the Management Board
20 March 2019

Tiina Mõis
Member of the Supervisory Board
20 March 2019

Reet Saks
Member of the Supervisory Board
20 March 2019

Lauri Kustaa Äimä
Member of the Supervisory Board
20 March 2019

Valdo Kalm
Member of the Supervisory Board
20 March 2019

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, KJK Capital Oy,
Member of the Management Board, KJK Management SA,
Member of the Management Board of Amiraali Invest Oy,
Member of the Management Board of UAB D Investiciju Valdymas.
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Management Board, Tahe Outdoors OÜ.
Baltika shares held on 31 December 2018: 0

TIINA MÕIS

Member of the Supervisory Board since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Board of AS LHV Pank and AS LHV Group,
Member of the Supervisory Board of Rocca al Mare Kool.
Baltika shares held on 31 December 2018: 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 2018: 0

LAURI KUSTAA ÄIMÄ

Member of the Supervisory Board since 18.06.2009

Managing Director of Kaima Capital Oy

Master of Economics, University of Helsinki

Other assignments:

Sole board member of Kaima Capital Eesti OÜ
CEO, member of the board of KJK Capital Oy
Chairman of the Board of KJK Fund II, SICAV-SIF
Member of the Management Board of KJK Fund III Management S.a.r.l
Member of the Management Board of KJK Investments S.a.r.l
Member of the Supervisory Board of AS Salva Kindlustus
Member of the Supervisory Board of AS Toode
Member of the Management Board of Amber Trust Management SA
Member of the Management Board of Amber Trust II Management SA
Director of Amber Trust SCA
Director of Amber Trust II SCA
Member of the board of Aurejärvi Varainhoito Oy
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 7 d.o.o
Member of the Board of KJK Investicije 8 d.o.o
Member of the Supervisory Board of Managetrade OÜ
Chairman of the Supervisory Board of JSC Rigas Dzirnavnieks
Member of the Board of UAB Malsena Plius
Member of the board of AB Baltic Mill
Member of the board of Bostads AB Blåklinten Oy
Member of the Supervisory Board of Saaremere Kala AS
Member of the Supervisory Board of Eurohold Bulgaria AD
Member of the Board of Leader Group 2016 AD

Baltika shares held on 31 Dec 2018: 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 2018: 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 2018: 1,000,346 shares

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika shares 31 December 2018: 0

2018 Consolidated Annual Report (in thousands of euros)

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

Code	Definition	2018	2017
46421	Wholesale of clothing and footwear	29,167	30,177
47911	Retail sale via mail order houses or via Internet	1,707	1,468
46191	Wholesale of other products	94	126
46151	Brokerage of furniture, other products	253	89
14131	Other sewing services	26	27
68201	Other rental revenue	8	11
Total		**31,255**	**31,898**

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