



**Baltika Group**

## **AS BALTIKA**

### **Consolidated interim report for the second quarter and 6 months of 2017**

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Commercial registry number	10144415
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Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2017 – 31 December 2017
Reporting period	1 January 2017 – 30 June 2017



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## BRIEF DESCRIPTION OF BALTIKA GROUP

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

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

As at 30 June 2017 the Group employed 1,057 people (31 December 2016: 1,049).

The parent company is located and has been registered at 24 Veerenni in Tallinn, Estonia.

The Group consists of the following companies:

<b>Subsidiary</b>	<b>Location</b>	<b>Activity</b>	<b>Holding as at 30 June 2017</b>	<b>Holding as at 31 Dec 2016</b>
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman <sup>1</sup>	Estonia	Retail	100%	100%
SIA Baltika Latvija <sup>2</sup>	Latvia	Retail	100%	100%
UAB Baltika Lietuva <sup>2</sup>	Lithuania	Retail	100%	100%
OY Baltinia AB	Finland	Dormant	100%	100%
Baltika Sweden AB	Sweden	Dormant	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%

<sup>1</sup>Interest through a subsidiary.

<sup>2</sup>Interest through Baltman OÜ



## MANAGEMENT REPORT

### BALTIKA'S UNAUDITED FINANCIAL RESULTS, SECOND QUARTER AND SIX MONTHS OF 2017

Baltika Group's second quarter resulted in net profit in the amount of 199 thousand euros. The result of last year same period was a profit of 346 thousand euros.

Group's 2017 second quarter revenue was 11,732 thousand euros, decreasing by 1% compared to the same period last year. Retail revenue in the second quarter was 9,891 thousand euros, decreasing 4% compared to same period last year, at the same time e-store and wholesale and franchise sales continued to increase. The retail sales in the Baltic region were mostly impacted by the lowest demand in the recent years for the spring-summer collection in April and May. In June the retail sales recovered and due to the season-end sales campaign, that was earlier than usual, there was a growth in sales.

Wholesale and franchise revenue increased 17% in second quarter and was 1,376 thousand euros. Higher sales volumes to Peek & Cloppenburg department stores chain and an entrance to new franchise market in Serbia supported the growth in wholesale and franchise revenue. At the end of second quarter there were 32 franchise stores representing Baltika's brands, forming 25% of the total stores portfolio. In the first half-year the wholesale and franchise revenue increased 9% and was 3,221 thousand euros.

Baltika Group's e-store Andmorefashion.com sales revenue increased 47% in the second quarter and was 371 thousand euros. Orders were placed from 31 countries. Countries with the largest e-store revenues were continually Estonia, Latvia, Lithuania, Russia and Finland. The best-selling brands in e-store were Monton and Mosaic – two of the Baltika's largest brands' revenue comprised respectively 34% and 31% from e-store revenue. Similarly to wholesale and franchise revenue, the e-store revenue increased in first half-year as well: revenue increased 43% compared to same period last year and was 720 thousand euros.

The company's gross profit margin in the second quarter was 51.3%, which is 1.0 percentage points lower than in the same period last year. The decrease in gross profit margin is mainly due to higher mark-downs in retail business. Due to weak sales results in April and May, the inventory level was higher than expected, thus the season-end sale campaign started already at the beginning of June, which in turn resulted in good sales results in June but had deeper mark-downs than in previous year. The quarter gross profit was 6,014 thousand euros, decreasing 165 thousand euros compared to last year's comparable result. The first half-year's gross profit amounted 11,264 thousand euros (2016 I half-year: 11,490 thousand euros).

Group's second quarter distribution and general expense stayed on the same level as in the same period last year. The distribution and general expense ratio to revenue in the second quarter was 48.7% i.e. due to decreased revenue the expense ratio has increased 0.4 percentage in second quarter. At the same time the first half-year's expense ratio to revenue has decreased 0.2 percentage points.

In the first half-year Baltika's revenue increased 1% compared to same period last year. The e-store and wholesale and franchise revenue showed growth; with that one of the company's objectives for 2017 – revenue growth in all of the sales channels – was partly met. Company ended the half-year with a loss in the amount of 391 thousand euros, the comparative result from previous year was a loss in the amount of 147 thousand euros. The decrease is mainly due to deeper mark-downs in retail, which in turn decrease a gross profit.

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

- ✉ The Annual General Meeting of AS Baltika, held on 8th of May 2017, decided to approve the Annual report for 2016 and profit allocation to retained earnings. Meeting appointed the auditors for auditing the financial years 2017-2019 to be AS PricewaterhouseCoopers. Annual General Meeting decided to conditionally increase the share capital of the Company and to issue convertible bonds according to the Terms and Conditions of K-Bonds presented by Supervisory Board.
- ✉ With a decision of AS Baltika Supervisory Board on 29th of May 2017 Ingrid Kormik is appointed as additional member of AS Baltika Management Board. Ingrid is the head of purchasing and supply chain, which contains purchasing, production planning, logistics as well as quality and



technical design department management. Ingrid Kormik is a one of the most valued purchasing and supply chain experts in Estonia and she has occupied different positions in Baltika since 2001.

- Financial Supervision Authority approved on 10th of July 2017 the Convertible bond offering prospectus. The offering comprises of 900 bonds with issuance price of 5,000 euros, therefore total of 4,500,000 euros. Bonds with the term of three year bear 6% interest p.a. Each bond gives to its owner the right to subscribe for 15,625 shares of the Company with subscription price 0.32 euros per share. The subscription for the shares will take place from 15th of July 2019 until 18 August 2019 2 p.m. The company's shareholders fixed in the share register on 14th of July 2017 08:00 a.m. shall be granted the pre-emptive right on allocation of the bonds. Offer period terminates at 2 p.m. on 16th of August 2017. Results of the offering will be announced on 17th of August 2017.

## REVENUE

Baltika's second quarter sales revenue was 11,732 thousand euros, decreasing 1% compared to same period last year. The total revenue decreased due to the decrease in retail revenue (-4%). At the same time wholesale and franchise as well as e-com revenue continue to show strong growth. Growth was largest with 47% in e-store. In first half-year total company's revenue increased 1% i.e. 166 thousand euros compared to same period last year.

### Revenue by activity

EUR thousand	2 Q 2017	2 Q 2016	+/-	6M 2017	6M 2016	+/-
Retail	9,891	10,290	-4%	18,415	18,718	-2%
Wholesale & Franchise	1,376	1,182	17%	3,221	2,965	9%
E-com sales	371	252	47%	720	504	43%
Other	94	94	0%	133	136	-2%
<b>Total</b>	<b>11,732</b>	<b>11,818</b>	<b>-1%</b>	<b>22,489</b>	<b>22,323</b>	<b>1%</b>

### Stores and sales area

As at 30 June 2017 Group had 126 stores, among which 32 franchise stores.

### Stores by market

	30 June 2017	30 June 2016	Average area change*
Estonia	43	44	4%
Lithuania	29	29	-2%
Latvia	22	21	5%
Ukraine <sup>1</sup>	15	15	-2%
Russia <sup>1</sup>	11	13	81%
Belarus <sup>1</sup>	2	2	-8%
Spain <sup>1</sup>	3	6	-37%
Serbia <sup>1</sup>	1	0	-
<b>Total stores</b>	<b>126</b>	<b>130</b>	
<b>Total sales area, sqm</b>	<b>23,545</b>	<b>23,574</b>	<b>0%</b>

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

<sup>1</sup>Franchise shops are with a total sales area of 6,149 m<sup>2</sup>.

### Retail

In the second quarter retail revenue totalled 9,891 thousand euros, decreasing 4% compared to same period last year. In addition to lower demand for spring and summer collection in April and May, the retail revenue was impacted by the change in mid-season sales campaigns strategy. In previous years the mid-season sales campaigns have been in April, in this year the campaigns started already at the end of March – this because of the important competitors who started with the campaigns at the beginning of March. The end of season sale campaign started at the beginning of June, thus the June sales results were good.



Estonian retail market's revenue increased 1% in first half-year and was 8,980 thousand euros, at the same time in other Baltic retail markets revenue decreased, thus in first half-year total retail revenue amounted in 18,415 thousand euros i.e. 2% less than in same period last year.

### Retail sales by market

EUR thousand	2 Q 2017	2 Q 2016	+/-	Share	6M 2017	6M 2016	+/-	Share
Estonia	4,907	4,949	-1%	50%	8,980	8,848	1%	49%
Lithuania	2,448	2,721	-10%	25%	4,705	5,080	-7%	25%
Latvia	2,536	2,620	-3%	25%	4,730	4,790	-1%	26%
<b>Total</b>	<b>9,891</b>	<b>10,290</b>	<b>-4%</b>	<b>100%</b>	<b>18,415</b>	<b>18,718</b>	<b>-2%</b>	<b>100%</b>

While in first half-year Estonian retail market revenue increased compared to same period last year, due to increase in sales area the sales efficiency was lower than in last year.

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

	2 Q 2017	2 Q 2016	+/-	6M 2017	6M 2016	+/-
Estonia	207	217	-5%	193	198	-3%
Lithuania	148	159	-7%	141	149	-5%
Latvia	211	231	-9%	199	212	-6%
<b>Total</b>	<b>189</b>	<b>201</b>	<b>-6%</b>	<b>178</b>	<b>185</b>	<b>-4%</b>

### Brands

In the second quarter Bastion brand continued to show growth in retail compared to same period last year. Bastion brand revenue increased by 14% and was 476 thousand euros in the second quarter. In addition to growth in revenue and sales area, Bastion collection sales efficiency increased as well. Bastion revenue in the first half-year increased 12%.

Baltika's largest brand Monton retail revenue was 4,214 thousand euros in second quarter, which means a decrease of 3% compared to last year's second quarter. At the same time in half-year total Monton brand's retail revenue showed an increase of 1% and was 7,788 thousand euros.

### Retail revenue by brand

EUR thousand	2 Q 2017	2 Q 2016	+/-	Share	6M 2017	6M 2016	+/-	Share
Monton	4,214	4,330	-3%	43%	7,788	7,721	1%	42%
Mosaic	3,101	3,333	-7%	31%	5,688	5,880	-3%	31%
Baltman	1,178	1,255	-6%	12%	2,160	2,291	-6%	12%
Ivo Nikkolo	916	940	-3%	9%	1,880	1,925	-2%	10%
Bastion	476	417	14%	5%	893	799	12%	5%
Other	6	15	-60%	0%	6	102	-94%	0%
<b>Total</b>	<b>9,891</b>	<b>10,290</b>	<b>-4%</b>	<b>100%</b>	<b>18,415</b>	<b>18,718</b>	<b>-2%</b>	<b>100%</b>

### Sales in other channels

In the second quarter of 2017 revenue from wholesale and franchise was 1,376 thousand euros increasing 194 thousand euros i.e. 17% compared to same period last year. The increase in volume is mainly attributable to increased sales volumes to Peek & Cloppenburg department stores chain and entrance to new franchise market. At the end of second quarter there were 32 franchise stores representing Baltika's brands, forming 25% of total stores portfolio. Wholesale and franchise revenue increased 9% in first half-year and was 3,221 thousand euros.

E-store revenue increased 47% in the second quarter and was 371 thousand euros. Revenue increased the most in Latvia, Lithuania and Russia, 62%, 99% and 54% respectively. Orders were placed from 31 countries. Countries with the largest sales were Estonia, Latvia, Lithuania, Russia and Finland. The best-selling brand in e-store were Monton and Mosaic – two of the Baltika's largest brands' revenue comprised 34% and 31% from e-store revenue respectively. The most popular product department was



dresses, of which 2,939 pieces were sold. Logistical changes in e-store orders' packaging and delivery process supported the revenue growth.

### OPERATING EXPENSES AND NET PROFIT

The company's gross profit margin in the second quarter was 51.3%, which is 1.0 percentage points lower than in the same period last year. The decrease in gross profit margin is mainly due to higher mark-downs in retail business. The quarterly gross profit was 6,014 thousand euros, which is 165 thousand euros less than last year's comparative result. The first half-year's gross profit amounted 11,264 thousand euros (I half-year 2016: 11,490 thousand euros).

Distribution expense in the second quarter was 5,093 thousand euros, decreasing by 15 thousand euros compared to the same period last year. In the head-office distribution expense has decreased by 5% i.e. 71 thousand euros, at the same time retail markets' distribution expense has increased by 1% i.e. 56 thousand euros. Increase in retail markets' expense is mainly attributable to increased sales area. General and administrative expense was 620 thousand euros, increasing by 20 thousand euros. In half-year total distribution, general and administrative expense remained on last year level.

The distribution and general expense ratio to revenue in the second quarter was 48.7% i.e. within year the costs ratio to revenue has increased by 0.4 percentage points. In first half-year the expense ratio to revenue was 50.8% i.e. 0.2 percentage points lower than the comparable figure from last year (2016 I half-year: 51.0%)

Other operating net expense in the second quarter was 22 thousand euros and the operating profit was 323 thousand euros. In same period last year the operating profit was 459 thousand euros.

The net financial expense in the second quarter was 124 thousand euros, which is 11 thousand euros more than in the same period last year.

The second quarter resulted in a net profit in the amount of 199 thousand euros. Net profit in the same period in the previous year was 346 thousand euros. The half-year resulted in a net loss in the amount of 391 thousand euros, net loss in comparable period was in the amount of 147 thousand euros.

### FINANCIAL POSITION

As at 30 June 2017, Baltika Group inventories totalled 11,900 thousand euros, increasing 804 thousand euros compared to last year-end. Compared to same seasonal period ended on 30 June last year inventories have stayed on the same level. Goods and goods purchased for resale inventories have increased by 1% i.e. 57 thousand euros and fabrics and accessories inventories have increased by 77 thousand euros i.e. 4%. Work-in-progress inventories have decreased by 4 thousand euros and prepayments to suppliers have decreased 89 thousand euros.

As at 30 June 2017 trade receivables were 2,499 thousand euros, which is 543 thousand euros more than at the end of last year. Trade receivables have mainly increased due to an increase in wholesale and franchise sales, where the customers have longer payment periods.

As at 30 June 2017 the total borrowings amounted to 7,819 thousand euros, which together with the usage of overdraft facility signifies an increase of 788 thousand euros compared to the last year-end (31 December 2016: 7,031 thousand euros). The increase in borrowings is attributable to the increase in the usage of overdraft due to the seasonal business cycle.

In the second quarter purchases of fixed assets were made in the amount of 102 thousand euros and depreciation of 322 thousand euros was recorded. Property, plant and equipment and intangible assets at residual value decreased by 384 thousand euros compared to last year-end and were 4,314 thousand euros.

The second quarter operating activities cash-flows were 853 thousand euros (II quarter 2016: 992 thousand euros). Cash outflows from investment activity were 70 thousand euros (II quarter 2016: 307 thousand euros). Bank loan repayments were made in the amount of 287 thousand euros and the final part (500 thousand euros) of the investment loan taken in July 2016 was taken into use. Group's second quarter total cash flow was -301 thousand euros (II quarter 2016: 64 thousand euros).





As at 30 June 2017 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 7,515 thousand euros, which is 903 thousand euros more than at the end of last year. The net debt to equity ratio was 164% as at 30 June 2017. Compared to same seasonal business cycle on 30 June 2016 Group's net debt to equity ratio is on comparable level (30 June 2016: 154%). Compared to last year end, 31 December 2016, the net debt to equity ratio has deteriorated mainly due to increase in borrowings (increased usage of overdraft) which is usual in the first half-year. Current ratio has deteriorated in comparable periods due to the fact that part of the non-current liabilities have turned into current liabilities (J-Bonds repayment date is in summer of 2017 and to refinance these bond new convertible bonds will be issued).

## PEOPLE

As at 30 June 2017 Baltika Group employed 1,057 people that is 8 people more than as at 31 December 2016 (1,049): 513 (31.12.2016: 487) in the retail system, 363 (31.12.2016: 380) in manufacturing and 181 (31.12.2016: 182) at the head office and logistics centre. The 2017 first half-year's average number of staff in Group was 1,054 (I half-year 2016: 1,088).

Baltika Group employees' remuneration expense in first half-year amounted to 5,282 thousand euros (I half-year 2016: 5,209 thousand euros). The accrued remuneration of the member of the Supervisory Board and Management Board totalled 142 thousand euros (I half-year 2016: 141 thousand euros).

## KEY FIGURES OF THE GROUP (II QUARTER AND 6 MONTHS 2017)

	Q2 2017	Q2 2016	Q2 2015 <sup>1</sup>	Q2 2015	Q2 2014	Q2 2013
Revenue (EUR thousand)	11,732	11,818	12,079	13,181	13,225	14,264
Retail sales (EUR thousand)	9,891	10,290	10,692	11,795	12,319	13,600
Share of retail sales in revenue	84.3%	87.1%	88.5%	89.5%	93.1%	95.3%
Gross margin	51.3%	52.3%	51.0%	52.1%	56.3%	59.2%
EBITDA (EUR thousand)	645	790	554	520	1,053	1,226
Net profit (EUR thousand)	199	346	127	67	647	624
EBITDA margin	5.5%	6.7%	4.6%	3.9%	8.0%	8.6%
Operating margin	2.8%	3.9%	2.1%	1.4%	5.7%	5.9%
EBT margin	1.7%	2.9%	1.1%	0.5%	5.0%	4.4%
Net margin	1.7%	2.9%	1.1%	0.5%	4.9%	4.4%

	6M and 30 June 2017	6M and 30 June 2016	6M and 30 June 2015 <sup>1</sup>	6M and 30 June 2015	6M and 30 June 2014	6M and 30 June 2013
<b>Sales activity key figures</b>						
Revenue (EUR thousand)	22,489	22,323	23,299	25,506	26,672	27,450
Retail sales (EUR thousand)	18,415	18,718	20,027	22,234	24,704	25,889
Share of retail sales in revenue	81.9%	83.9%	86.0%	87.2%	92.6%	94.3%
Share of exports in revenue	56.0%	56.0%	57.1%	60.8%	65.3%	66.7%
Number of stores in retail	94	94	93	104	107	115
Number of stores	126	130	120	131	126	115
Sales area at the end of period (sqm)	17,396	16,766	16,936	24,473	20,777	22,575
Number of employees (end of period)	1,057	1,070	1,143	1,231	1,248	1,321
Gross margin	50.1%	51.5%	48.3%	48.4%	51.7%	55.4%
EBITDA (EUR thousand)	493	731	165	-194	-1,013	1,072
Net profit (EUR thousand)	-391	-147	-656	-1,069	-1,834	21
EBITDA margin	2.2%	3.3%	0.7%	-0.8%	-3.8%	3.9%
Operating margin	-0.7%	0.3%	-1.8%	-3.3%	-6.2%	1.1%
EBT margin	-1.7%	-0.7%	-2.8%	-4.2%	-6.8%	0.1%
Net margin	-1.7%	-0.7%	-2.8%	-4.2%	-6.9%	0.1%





Inventory turnover	2.00	1.98	1.91	1.94	1.92	2.07
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**Other ratios<sup>2</sup>**

Current ratio	1.0	1.3	1.8	1.8	1.5	1.9
Net gearing ratio	164.3%	154.1%	96.1%	96.1%	61.7%	43.3%
Return on equity	-8.5%	-2.9%	-12.4%	-12.4%	-17.6%	0.2%
Return on assets	-2.0%	-0.6%	-4.5%	-4.5%	-7.6%	0.1%

<sup>1</sup>In connection with Baltika’s exit from the Russian retail business at the beginning of the year 2016, the sales activity key figures of 2015 presents only results of continued operations.

<sup>2</sup>Other ratios include impact of continued and discontinued operations.

**Definitions of key ratios**

EBITDA = Operating profit-amortisation depreciation and loss from disposal of fixed assets

EBITDA margin = EBITDA/Revenue

Gross margin = (Revenue-Cost of goods sold)/Revenue

Operating margin = Operating profit/Revenue

EBT margin = Profit before income tax/Revenue

Net margin = Net profit (attributable to parent)/Revenue

Current ratio = Current assets/Current liabilities

Inventory turnover = Cost of goods sold/Average inventories\*

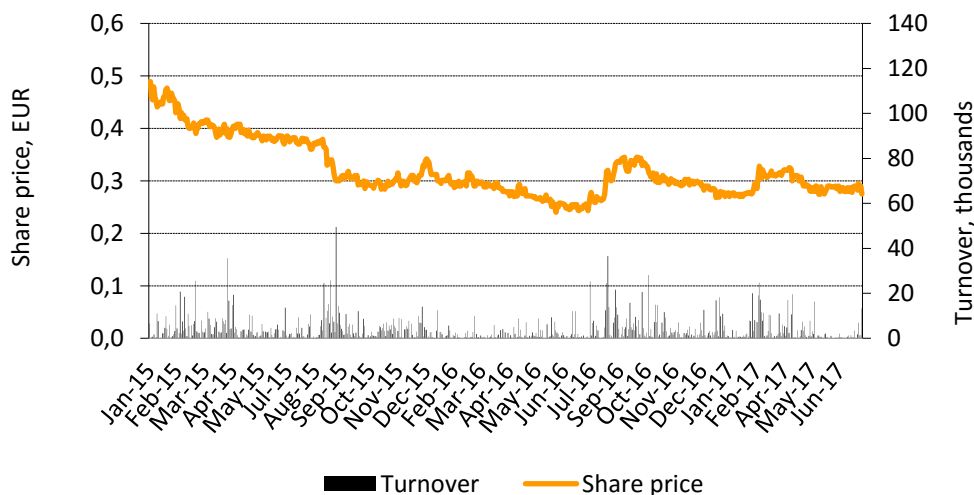
Net gearing ratio = (Interest-bearing liabilities-cash and cash equivalents)/Equity

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

Return on assets (ROA) = Net profit /Average total assets\*

\*Based on 12-month average

**SHARE PRICE AND TURNOVER**





## MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The Management Board confirms that the management report presents a true and fair view of all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements; includes the description of major risks and doubts influencing the remainder of the financial year; and provides an overview of all significant transactions with related parties.

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Meelis Milder  
Chairman of the Management Board  
20 July 2017

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Maigi Pärnik-Pernik  
Member of the Management Board  
20 July 2017

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Ingrid Kormik  
Member of the Management Board  
20 July 2017



## INTERIM FINANCIAL STATEMENTS

### MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the second quarter and 6 months of 2017 as presented on pages 11-31.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements give a true and fair view of the assets and liabilities of the Group comprising of the parent company and other Group entities as well as its financial position, its results of the operations and the cash flows of the Group; and its cash flows;
3. the Group is going concern.

Meelis Milder  
Chairman of the Management Board  
20 July 2017

Maigi Pärnik-Pernik  
Member of the Management Board  
20 July 2017

Ingrid Kormik  
Member of the Management Board  
20 July 2017

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<b>Note</b>	<b>30 June 2017</b>	<b>31 Dec 2016</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	304	419
Trade and other receivables	4	2,499	1,956
Inventories	5	11,900	11,096
<b>Total current assets</b>		<b>14,703</b>	<b>13,471</b>
<b>Non-current assets</b>			
Deferred income tax asset		228	228
Other non-current assets	4	566	522
Property, plant and equipment	6	2,733	3,022
Intangible assets	7	1,581	1,676
<b>Total non-current assets</b>		<b>5,108</b>	<b>5,448</b>
<b>TOTAL ASSETS</b>		<b>19,811</b>	<b>18,919</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	8	6,595	5,835
Trade and other payables	9,10	7,418	6,923
<b>Total current liabilities</b>		<b>14,013</b>	<b>12,758</b>
<b>Non-current liabilities</b>			
Borrowings	8	1,224	1,196
<b>Total non-current liabilities</b>		<b>1,224</b>	<b>1,196</b>
<b>TOTAL LIABILITIES</b>		<b>15,237</b>	<b>13,954</b>
<b>EQUITY</b>			
Share capital at par value	11	8,159	8,159
Share premium		496	496
Reserves	11	1,182	1,182
Retained earnings		-4,872	-5,049
Net loss for the period		-391	177
<b>TOTAL EQUITY</b>		<b>4,574</b>	<b>4,965</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>19,811</b>	<b>18,919</b>

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS**

	<b>Note</b>	<b>2 Q 2017</b>	<b>2 Q 2016</b>	<b>6M 2017</b>	<b>6M 2016</b>
Revenue	12,13	11,732	11,818	22,489	22,323
Cost of goods sold	14	-5,718	-5,639	-11,225	-10,833
<b>Gross profit</b>		<b>6,014</b>	<b>6,179</b>	<b>11,264</b>	<b>11,490</b>
Distribution costs	15	-5,093	-5,108	-10,152	-10,109
Administrative and general expenses	16	-620	-600	-1,279	-1,269
Other operating income (-expense)	17	22	-12	20	-37
<b>Operating profit (loss)</b>		<b>323</b>	<b>459</b>	<b>-147</b>	<b>75</b>
Finance costs	18	-124	-113	-244	-222
<b>Profit (loss) before income tax</b>		<b>199</b>	<b>346</b>	<b>-391</b>	<b>-147</b>
Income tax expense		0	0	0	0
<b>Net profit (loss) for the period</b>		<b>199</b>	<b>346</b>	<b>-391</b>	<b>-147</b>
Basic earnings per share from net profit (loss) for the period, EUR	19	0.00	0.01	-0.01	0.00
Diluted earnings per share from net profit (loss) for the period, EUR	19	0.00	0.01	-0.01	0.00



### CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Net profit (loss) for the period	199	346	-391	-147
Other comprehensive income	0	0	0	0
Total other comprehensive income	0	0	0	0
Total comprehensive income (loss)	199	346	-391	-147

**CONSOLIDATED CASH FLOW STATEMENT**

	<b>Note</b>	<b>2 Q 2017</b>	<b>2 Q 2016</b>	<b>6M 2017</b>	<b>6M 2016</b>
<b>Cash flows from operating activities</b>					
Operating profit (loss)		323	459	-147	75
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	322	329	638	645
Gain (loss) from sale, impairment of PPE, non-current assets, net		0	5	2	12
Other non-monetary expenses		-3	323	-1	261
Changes in working capital:					
Change in trade and other receivables	4	-119	10	-587	-376
Change in inventories	5	-810	-1,311	-804	-1,435
Change in trade and other payables	9	1,208	1,239	385	300
Interest paid		-68	-62	-132	-118
Income tax paid		0	0	0	-1
<b>Net cash generated from operating activities</b>		<b>853</b>	<b>992</b>	<b>-646</b>	<b>-637</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment, intangibles	6, 7	-70	-307	-227	-616
Proceeds from disposal of PPE		0	0	2	0
<b>Net cash used in investing activities</b>		<b>-70</b>	<b>-307</b>	<b>-225</b>	<b>-616</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings	8	500	0	500	0
Repayments of borrowings	8	-287	-163	-544	-326
Change in bank overdraft	8	-1,248	-399	898	1,524
Repayments of finance lease		-49	-59	-98	-89
<b>Net cash generated (used in) financing activities</b>		<b>-1,084</b>	<b>-621</b>	<b>756</b>	<b>1,109</b>
<b>Total cash flows</b>		<b>-301</b>	<b>64</b>	<b>-115</b>	<b>-144</b>
<b>Cash and cash equivalents at the beginning of the period</b>	3	<b>605</b>	<b>190</b>	<b>419</b>	<b>398</b>
<b>Cash and cash equivalents at the end of the period</b>	3	<b>304</b>	<b>254</b>	<b>304</b>	<b>254</b>
<b>Change in cash and cash equivalents</b>		<b>-301</b>	<b>64</b>	<b>-115</b>	<b>-144</b>





## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
<b>Balance as at 31 Dec 2015</b>	<b>8,159</b>	<b>496</b>	<b>1,182</b>	<b>-5,049</b>	<b>4,788</b>
Loss for the period	0	0	0	-147	-147
<b>Total comprehensive income (loss)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-147</b>	<b>-147</b>
<b>Balance as at 30 June 2016</b>	<b>8,159</b>	<b>496</b>	<b>1,182</b>	<b>-5,196</b>	<b>4,641</b>
<b>Balance as at 31 Dec 2016</b>	<b>8,159</b>	<b>496</b>	<b>1,182</b>	<b>-4,872</b>	<b>4,965</b>
Loss for the period	0	0	0	-391	-391
<b>Total comprehensive loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-391</b>	<b>-391</b>
<b>Balance as at 30 June 2017</b>	<b>8,159</b>	<b>496</b>	<b>1,182</b>	<b>-5,263</b>	<b>4,574</b>



## NOTES TO CONSOLIDATED INTERIM REPORT

### NOTE 1 Accounting policies and methods used in the preparation of the interim report

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer that develops and operates fashion brands: Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo. The Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and whole-, franchise- and retail sales. AS Baltika's shares are listed on the Nasdaq Tallinn Stock Exchange. The largest shareholder and the only company holding more than 20% of shares (Note 11) of AS Baltika is KJK Fund Sicav-SIF (on ING Luxembourg S.A. account).

The Group's condensed consolidated interim report for the second quarter ended 30 June 2017 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2016, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016. New and revised standards and interpretations effective from 1 January 2017 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

All information in the financial statements is presented in thousands euros, unless stated otherwise.

This interim report has not been audited or otherwise reviewed by auditors, and includes only Group's consolidated reports and does not include all of the information required for full annual financial statements.

### NOTE 2 Financial risks

In its daily activities, the Group is exposed to different types of risks, managing these risks is an important and integral part of the business activities of the Group. The Group's ability to identify, measure and control different risks is a key input for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks. Management of the Group's Parent company considers all the risks as significant risks for the Group. The Group uses the ability to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions to hedge certain risk exposures.

The basis for risk management in the Group are the requirements set by the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, adherence to generally accepted accounting principles, as well as the company's internal regulations and risk policies. Overall risk management includes identification, measurement and control of risks. The management of the Group plays a major role in managing risks and approving risk procedures. The Supervisory Board of the Group supervises the Management Board's risk management activities.

#### Market risk

##### *Foreign exchange risk*

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

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



<b>Average currencies</b>	<b>6M 2017</b>	<b>6M 2016</b>
USD (US dollar)	-2.95%	0.01%

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

<b>Balance-sheet date rates (30 June 2017; 31 Dec 2016)</b>	
USD (US dollar)	8.26%

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

In 2017 and 2016 the Group hedged foreign currency risk using forward contracts which are recorded in the statement of financial position at fair value through profit and loss. The Management monitors changes of foreign currency constantly and assesses if the changes exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency.

#### *Interest rate risk*

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

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

Non-current borrowings in the amount of 1,224 thousand euros at 30 June 2017 and 1,196 thousand euros 31 December 2016 were subject to a floating 6 month interest rate based on Euribor (Note 8). The Group analyses its interest rate exposure on a regular basis. Various scenarios for reducing risks are considered. These scenarios include refinancing, renewal of existing positions and alternative financing.

During the current or the previous reporting period the Group has not used any hedging instruments to manage the risks arising from interest rate fluctuations.

#### *Price risk*

The Group is not exposed to the price risk with respect to financial instruments as it does not hold any equity securities.

#### **Credit risk**

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

#### *Cash and cash equivalents*

For banks and financial institutions, mostly independently rated parties with a minimum rating of "A" are accepted as long-term counterparties in Baltic states.

#### *Trade receivables*

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

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

As at 30 June 2017 the maximum exposure to credit risk from trade receivables and other non-current assets (Note 4) amounted to 2,339 thousand euros (31 December 2016: 1,713 thousand euros) on a net basis after allowances.



## Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, bond issuances, monitoring the terms of receivables and purchase contracts. The unused limit of the Group's overdraft facilities as at 30 June 2017 was 1,482 thousand euros (31 December 2016: 2,380 thousand euros).

### Financial liabilities by maturity at 30 June 2017

	Carrying amount	Undiscounted cash flows <sup>1</sup>		
		1-12 months	1-5 years	Total
Loans (Note 8) <sup>2</sup>	4,541	2,008	2,742	4,750
Finance lease liabilities (Note 8)	278	184	102	286
Convertible bonds (Note 8)	3,000	3,624	0	3,624
Trade payables (Note 9)	3,866	3,866	0	3,866
Other financial liabilities	39	39	0	39
<b>Total</b>	<b>11,724</b>	<b>9,721</b>	<b>2,844</b>	<b>12,565</b>

### Financial liabilities by maturity at 31 December 2016

	Carrying amount	Undiscounted cash flows <sup>1</sup>		
		1-12 months	1-5 years	Total
Loans (Note 8) <sup>2</sup>	3,685	2,807	1,110	3,917
Finance lease liabilities (Note 8)	346	202	155	357
Convertible bonds (Note 8)	3,000	3,624	0	3,624
Trade payables (Note 9)	3,259	3,259	0	3,259
Other financial liabilities	30	30	0	30
<b>Total</b>	<b>10,320</b>	<b>9,922</b>	<b>1,265</b>	<b>11,187</b>

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

<sup>2</sup>Used overdraft facilities are shown under loans payable based on the contractual date of payment.

As at 30 June 2017, 83% of Group's financial liabilities will mature in the next 12-month period (31 December 2016: 89%). Significant part of that are convertible notes of 3,000 thousand euros. The repayment date for convertible notes is in August 2017; however, the Group refinances the notes by issuing new convertible bonds (see Note 11). The Group has access to sufficient variety of sources of funding to meet the obligations arising from the Group's activities.

## Operational risk

The Group's operations are mostly affected by the cyclical nature of economies in target markets and changes in competitive positions, as well as risks related to specific markets, especially non-European Union markets – Russia, Ukraine, Belarus).

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

As improvement of flexibility plays an important role in increasing the Group's competitiveness, continuous efforts are being made to shorten the cycles of business processes and minimise potential deviations. This also helps to improve the relative level and structure of inventories and the fashion collections' meeting consumer expectations.



The most important operating risk arises from the Group's inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted.

To ensure good collections, the Group employs a strong team of designers who monitor and are aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have been set up at the Group which help daily monitoring of sales and balance of inventories and using the information in subsequent activities. In order to avoid supply problems, cooperation with the world's leading procurement intermediaries as well as material-manufacturers has been expanded.

The inherent risk factor in selling clothes is the weather. When creating collections and planning the volume as well as timing of sales, regular weather conditions are assumed in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may differ significantly from the budget.

#### *Capital risk management*

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

The Group monitors capital on the basis of net gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as interest carrying borrowings less cash and cash equivalents.

The Group's long term goal is to maintain the net gearing ratio under 50%. At the end of the reporting period the ratio was 164%. In the end of 2016 the ratio was 133%. The deterioration of the ratio compared to the year end is influenced by the seasonality of the business characteristic to the first quarter and the resulting increased borrowings: compared to the same quarter last year, the ratio has remained stable (ratio at 30 June 2016: 154%). The Group also monitors other ratios e.g. net debt to EBITDA and net debt to share capital. Based on the above, the Group deems the capital structure to be in an acceptable range.

#### **Net gearing ratio**

	<b>30 June 2017</b>	<b>31 Dec 2016</b>
Interest carrying borrowings (Note 8)	7,819	7,031
Cash and bank (Note 3)	-304	-419
Net debt	7,515	6,612
Total equity	4,574	4,965
<b>Net gearing ratio</b>	<b>164%</b>	<b>133%</b>

#### **Fair value**

The Group estimates that the fair values of the assets and liabilities measured in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 30 June 2017 and 31 December 2016.

Trade receivables and payables are measured at amortized cost. Management estimates that their carrying value approximates fair value as they are mostly short term.

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

**NOTE 3 Cash and cash equivalents**

	30 June 2017	31 Dec 2016
Cash at hand	84	110
Cash at bank and overnight deposits	220	309
<b>Total</b>	<b>304</b>	<b>419</b>

All cash and cash equivalents are in euros.

**NOTE 4 Trade and other receivables**

<b>Short-term trade and other receivables</b>	30 June 2017	31 Dec 2016
Trade receivables, net	2,049	1,467
Other prepaid expenses	232	195
Tax prepayments and tax reclaims, thereof	209	280
Value added tax	209	280
Other current receivables	9	14
<b>Total</b>	<b>2,499</b>	<b>1,956</b>
<b>Long-term assets</b>		
Non-current lease prepayments	276	276
Other long-term receivables	290	246
<b>Total</b>	<b>566</b>	<b>522</b>

All trade and other receivables are in euros.

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

<b>30 June 2017</b>	Baltic region	Eastern European region	Other regions	Total
Not due	366	1,021	72	1,459
Up to 1 month past due	39	159	32	230
1-3 months past due	0	190	44	234
3-6 months past due	10	62	38	110
Over 6 months past due	10	0	6	16
<b>Total</b>	<b>425</b>	<b>1,432</b>	<b>192</b>	<b>2,049</b>
<b>31 Dec 2016</b>	Baltic region	Eastern European region	Other regions	Total
Not due	459	784	22	1,265
Up to 1 month past due	16	1	75	92
1-3 months past due	3	0	38	41
3-6 months past due	15	0	37	52
Over 6 months past due	17	0	0	17
<b>Total</b>	<b>510</b>	<b>785</b>	<b>172</b>	<b>1,467</b>

**NOTE 5 Inventories**

	30 June 2017	31 Dec 2016
Fabrics and accessories	2,190	1,906
Work-in-progress	78	78
Finished goods and goods purchased for resale	9,056	8,885
Allowance for impairment of finished goods and goods purchased for resale	0	-340
Prepayments to suppliers	576	567
<b>Total</b>	<b>11,900</b>	<b>11,096</b>

**NOTE 6 Property, plant and equipment**

	<b>Buildings and structures</b>	<b>Machinery and equipment</b>	<b>Other fixtures</b>	<b>Pre- payments</b>	<b>Total</b>
<b>31 December 2015</b>					
<b>Acquisition cost</b>	<b>2,452</b>	<b>4,736</b>	<b>4,491</b>	<b>1</b>	<b>11,680</b>
Accumulated depreciation	-1,545	-4,269	-2,956	0	-8,770
<b>Net book amount</b>	<b>907</b>	<b>467</b>	<b>1,535</b>	<b>1</b>	<b>2,910</b>
Additions	318	29	308	0	655
Disposals	-15	0	-24	0	-39
Reclassification	0	0	0	-1	-1
PPE impairment	-7	0	-4	0	-11
Depreciation	-159	-81	-247	0	-487
<b>30 June 2016</b>					
Acquisition cost	<b>2,731</b>	<b>4,726</b>	<b>4,738</b>	<b>0</b>	<b>12,195</b>
Accumulated depreciation	-1,687	-4,311	-3,170	0	-9,168
<b>Net book amount</b>	<b>1,044</b>	<b>415</b>	<b>1,568</b>	<b>0</b>	<b>3,027</b>
<b>31 December 2016</b>					
<b>Acquisition cost</b>	<b>2,838</b>	<b>4,718</b>	<b>4,813</b>	<b>0</b>	<b>12,369</b>
Accumulated depreciation	-1,746	-4,310	-3,291	0	-9,347
<b>Net book amount</b>	<b>1,092</b>	<b>408</b>	<b>1,522</b>	<b>0</b>	<b>3,022</b>
Additions	114	12	146	0	272
Disposals	-1	0	-29	0	-30
Depreciation	-195	-59	-277	0	-531
<b>30 June 2017</b>					
<b>Acquisition cost</b>	<b>2,950</b>	<b>4,726</b>	<b>4,905</b>	<b>0</b>	<b>12,581</b>
Accumulated depreciation	-1,940	-4,365	-3,543	0	-9,848
<b>Net book amount</b>	<b>1,010</b>	<b>361</b>	<b>1,362</b>	<b>0</b>	<b>2,733</b>



**NOTE 7 Intangible assets**

	Licenses, software and other	Trade- marks	Prepayments	Goodwill	Total
<b>31 December 2015</b>					
Acquisition cost	2,261	1,243	0	509	4,013
Accumulated depreciation	-1,732	-337	0	0	-2,069
<b>Net book amount</b>	<b>529</b>	<b>906</b>	<b>0</b>	<b>509</b>	<b>1,944</b>
Amortisation	-136	-22	0	0	-158
<b>30 June 2016</b>					
Acquisition cost	2,261	1,243	0	509	4,013
Accumulated depreciation	-1,868	-359	0	0	-2,227
<b>Net book amount</b>	<b>393</b>	<b>884</b>	<b>0</b>	<b>509</b>	<b>1,786</b>
<b>31 December 2016</b>					
Acquisition cost	2,092	1,243	0	509	3,844
Accumulated depreciation	-1,787	-381	0	0	-2,168
<b>Net book amount</b>	<b>305</b>	<b>862</b>	<b>0</b>	<b>509</b>	<b>1,676</b>
Additions	11	0	2	0	13
Amortisation	-86	-22	0	0	-108
<b>30 June 2017</b>					
Acquisition cost	2,103	1,243	2	509	3,857
Accumulated depreciation	-1,873	-403	0	0	-2,276
<b>Net book amount</b>	<b>230</b>	<b>840</b>	<b>2</b>	<b>509</b>	<b>1,581</b>

**NOTE 8 Borrowings**

	30 June 2017	31 Dec 2016
<b>Current borrowings</b>		
Current portion of bank loans	898	1,019
Overdraft	2,518	1,620
Current portion of finance lease liabilities	179	196
Convertible bonds	3,000	3,000
<b>Total</b>	<b>6,595</b>	<b>5,835</b>
<b>Non-current borrowings</b>		
Non-current bank loans	1,125	1,046
Non-current finance lease liabilities	99	150
<b>Total</b>	<b>1,224</b>	<b>1,196</b>
<b>Total borrowings</b>	<b>7,819</b>	<b>7,031</b>

During the reporting period, the Group made loan repayments in the amount of 544 thousand euros (2016: 326 thousand euros). Group's overdraft facilities with the banks were used in the amount of 2,518 thousand euros as at 30 June 2017 (31 December 2016: 1,620 thousand euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 244 thousand euros, including 93 thousand euros interest expense from the convertible bonds of related party (2016: 221 thousand euros, including 88 thousand euros interest expense from the loan of related party).

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



### Changes in 2017

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

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

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

### Changes in 2016

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

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

### Interest carrying loans and bonds of the Group as at 30 June 2017

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR vői EONIA +3.8%	4,819
J-Bonds	6.50%	3,000
<b>Total</b>		<b>7,819</b>

### Interest carrying loans and bonds of the Group as at 31 December 2016

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR vői EONIA +4.6%	4,031
J-Bonds	6.50%	3,000
<b>Total</b>		<b>7,031</b>

### NOTE 9 Trade and other payables

	30 June 2017	31 Dec 2016
<b>Current liabilities</b>		
Trade payables	3,866	3,259
Tax liabilities, thereof	1,541	1,603
Personal income tax	242	220
Social security taxes and unemployment insurance premium	532	536
Value added tax	717	770
Other taxes	50	77
Payables to employees <sup>1</sup>	871	991
Other accrued expenses	653	527
Customer prepayments	101	166
Other current payables	39	30
<b>Total</b>	<b>7,071</b>	<b>6,576</b>

<sup>1</sup>Payables to employees consist of accrued wages, salaries and vacation reserve.

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

**Trade payables and other accrues expenses in denominated currency**

	30 June 2017	31 Dec 2016
EUR (euro)	2,891	2,630
USD (US dollar)	1,628	1,156
<b>Total</b>	<b>4,519</b>	<b>3,786</b>

**NOTE 10 Provisions**

	30 June 2017	31 Dec 2016
Client bonus provision	347	347
<b>Total</b>	<b>347</b>	<b>347</b>

*Short description of the provision*

Baltika customer loyalty program “AndMore” motivates clients by allowing them to earn future discounts on purchases made today (bonus euros). Accumulated bonuses are valid for six months from the customer’s last purchase. Program conditions are described in detail on company’s website.

*Used assumptions*

The provision is calculated using assumptions made by Management as described in the Group’s consolidated annual financial statements for the year ended 31 December 2016.

**NOTE 11 Equity****Share capital and reserves**

	30 June 2017	31 Dec 2016
Share capital	8,159	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.20	0.20
Statutory reserve	1,182	1,182

As at 30 June 2017 and 31 December 2016, under the Articles of Association, the company’s minimum share capital is 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. All shares have been paid for. As at 30 June 2017 and 31 December 2016 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange.

**Convertible bonds and share option program**

	Issue date	Share subscription period	Number of convertible bonds 30 June 2017	Number of convertible bonds 31 Dec 2016
J-Bond	28 July 2014	15 July 2017 – 30 July 2017	600	600

**J-bonds**

On 28 April 2014 the Annual General Meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 3 million euros. The decision was to issue 600 convertible bonds with the issuance price of 5,000 euros. The three-year convertible bonds carry an annual interest rate of 6.5% and give its owner the right to subscribe for 10,000 Baltika’s shares at a price of 0.50 euros per share.

Bonds were partly issued to a related party (510 bonds in the amount of 2,550 thousand euros) (Note 20).

*Conditional increase of share capital in 2017*

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. 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. The subscription period is from 14 July 2017 to 16 August 2017.

#### Share option program

On 27 April 2015, the Annual General Meeting of shareholders decided to conditionally increase share capital by up to 1,000,000 registered shares with a nominal value of 0.20 euro subscription price of 0.20 euro related to the share option program. The share options granted to the Management Board members vest three years after signing the option agreement if the Baltika share price increase conditions are fulfilled.

#### Shareholders as at 30 June 2017

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	5,727,710	14.04%
3. BMIG OÜ*	4,750,033	11.64%
4. SKANDINAVISKA ENSKILDA BANKEN S.A.	3,407,305	8.35%
5. Svenska Handelsbanken clients	1,048,000	2.57%
6. Members of Management and Supervisory Boards and their immediate family members		
Meelis Milder	1,013,735	2.48%
Persons related to members of Management Board	336,083	0.83%
Entities connected to Supervisory Board not mentioned above	1,002,427	2.46%
7. Other shareholders	10,918,643	26.77%
<b>Total</b>	<b>40,794,850</b>	<b>100.00%</b>

#### Shareholders as at 31 December 2016

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

\*OÜ BMIG is under the control of the Management Board member of the Parent company.

The Parent company does not have a controlling shareholder or group of shareholders jointly controlling the entity.

#### NOTE 12 Segments

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

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 and Lithuania. While the Management Board reviews separate reports for each region, the countries have been aggregated into one reportable segment as they share similar economic characteristics. Each region sells the same products to similar classes of customers and use the same production process and the method to distribute their products.
- ☑ All other segments – consists of sale of goods to wholesale and franchise clients, materials and sewing services and e-commerce sales. None of these segments meet the reportable segments quantitative thresholds set out by IFRS 8 and are therefore aggregated into the All other segments category.

The Parent company's Management Board measures the performance of the operating segments based on external revenue and profit (loss). External revenue amounts provided to the Management Board are measured in a manner consistent with that of the financial statements. The segment profit (loss) is an internal measure used in the internally generated reports to assess the performance of the segments and comprises the segment's gross profit (loss) less operating expenses directly attributable to the segment, except for other operating income and expenses. The amounts provided to the Management Board with respect to inventories are measured in a manner consistent with that of the financial statements. The segment inventories include those operating inventories directly attributable to the segment or those that can be allocated to the particular segment based on the operations of the segment and the physical location of the inventories.

The Management Board monitors the Group's results also by shops and brands. The Group makes decisions on a shop-by-shop basis, using aggregated information for decision making. For segment reporting the Management Board has decided to disclose the information by distribution channel. Most of the Management Board's decisions related to investments and resource allocation are based on the segment information disclosed in this Note.

The Management Board primarily uses a measure of revenue from external customers, segment profit, depreciation and amortisation and inventories to assess the performance of the operating segments. Information for the segments is disclosed below:

#### The segment information provided to the Management Board for the reportable segments

	Retail segment	All other segments <sup>1</sup>	Total
<b>2 Quarter 2017</b>			
Revenue (from external customers)	9,891	1,841	11,732
Segment profit <sup>2</sup>	1,803	358	2,161
Incl. depreciation and amortisation	-237	-19	-256
<b>2 Quarter 2016</b>			
Revenue (from external customers)	10,290	1,528	11,818
Segment profit <sup>2</sup>	2,251	247	2,498
Incl. depreciation and amortisation	-212	-19	-231
<b>2 Quarter 2017 and as at 30 June 2017</b>			
Revenue (from external customers)	18,415	4,074	22,489
Segment profit <sup>2</sup>	2,381	766	3,147
Incl. depreciation and amortisation	-468	-37	-505
Inventories of segments	4,214	0	4,214
<b>2 Quarter 2016 and as at 30 June 2016</b>			
Revenue (from external customers)	18,718	3,605	22,323
Segment profit <sup>2</sup>	2,865	586	3,451
Incl. depreciation and amortisation	-413	-38	-451
Inventories of segments	4,260	0	4,260



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

<sup>2</sup>The segment profit is the segment operating profit.

### Reconciliation of segment profit to consolidated operating profit

	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Total segment profit	2,161	2,498	3,147	3,451
Unallocated expenses <sup>1</sup> :				
Costs of goods sold and distribution costs	-1,240	-1,427	-2,035	-2,070
Administrative and general expenses	-620	-600	-1,279	-1,269
Other operating income (expenses), net	22	-12	20	-37
<b>Operating profit (loss)</b>	<b>323</b>	<b>459</b>	<b>-147</b>	<b>75</b>

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

### Reconciliation of segment inventories to consolidated inventories

	30 June 2017	31 Dec 2016	30 June 2016
Total inventories of segments	4,214	4,392	4,260
Inventories in Parent company and production company	7,686	6,704	7,599
<b>Inventories on statement of financial position</b>	<b>11,900</b>	<b>11,096</b>	<b>11,859</b>

### NOTE 13 Revenue

	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Sale of goods in retail channel	9,891	10,290	18,415	18,718
Sale of goods in wholesale and franchise channel	1,376	1,181	3,221	2,965
Sale of goods in e-commerce channel	371	252	720	504
Other sales	94	95	133	136
<b>Total</b>	<b>11,732</b>	<b>11,818</b>	<b>22,489</b>	<b>22,323</b>

### Sales by geographical (client location) areas

	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Estonia	5,347	5,416	9,900	9,812
Latvia	2,659	2,738	5,006	5,052
Lithuania	2,509	2,757	4,829	5,169
Russia	453	380	1,042	784
Ukraine	184	156	512	507
Germany	185	34	342	105
Serbia	112	0	222	0
Austria	105	2	188	12
Spain	68	130	169	326
Belarus	52	33	130	101
Finland	46	143	122	400
Other countries	12	29	27	55
<b>Total</b>	<b>11,732</b>	<b>11,818</b>	<b>22,489</b>	<b>22,323</b>

**NOTE 14 Cost of goods sold**

	<b>2 Q 2017</b>	<b>2 Q 2016</b>	<b>6M 2017</b>	<b>6M 2016</b>
Materials and supplies	4,558	4,527	9,230	9,040
Payroll costs in production	874	824	1,745	1,703
Operating lease expenses	172	169	343	337
Other production costs	93	93	206	202
Depreciation of assets used in production (Note 6,7)	21	26	41	51
Change in allowance for inventories	0	0	-340	-500
<b>Total</b>	<b>5,718</b>	<b>5,639</b>	<b>11,225</b>	<b>10,833</b>

**NOTE 15 Distribution costs**

	<b>2 Q 2017</b>	<b>2 Q 2016</b>	<b>6M 2017</b>	<b>6M 2016</b>
Payroll costs	2,277	2,337	4,577	4,556
Operating lease expenses	1,634	1,577	3,227	3,155
Advertising expenses	308	311	638	652
Depreciation and amortisation (Note 6,7)	281	270	557	530
Fuel, heating and electricity costs	114	118	246	259
Municipal services and security expenses	83	81	165	171
Fees for card payments	60	62	111	113
Consultation and management fees	30	43	55	55
Travel expenses	41	39	85	86
Information technology expenses	46	39	84	88
Communication expenses	24	26	50	52
Other sales expenses <sup>1</sup>	195	205	357	392
<b>Total</b>	<b>5,093</b>	<b>5,108</b>	<b>10,152</b>	<b>10,109</b>

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

**NOTE 16 Administrative and general expenses**

	<b>2 Q 2017</b>	<b>2 Q 2016</b>	<b>6M 2017</b>	<b>6M 2016</b>
Payroll costs	307	294	637	613
Operating lease expenses	111	107	222	219
Information technology expenses	50	59	100	116
Bank fees	36	38	84	78
Management, juridical-, auditor's and other consulting fees	18	1	44	22
Depreciation and amortisation (Note 6,7)	20	33	40	64
Fuel, heating and electricity expenses	14	16	35	36
Other administrative expenses <sup>1</sup>	64	52	117	121
<b>Total</b>	<b>620</b>	<b>600</b>	<b>1,279</b>	<b>1,269</b>

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



**NOTE 17 Other operating income and expenses**

	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Gain (loss) from sale, impairment of PPE	1	-6	-1	-13
Other operating income	57	3	83	6
Foreign exchange gain (-loss)	-33	-4	-57	-22
Other operating expenses	-3	-5	-5	-8
<b>Total</b>	<b>22</b>	<b>-12</b>	<b>20</b>	<b>-37</b>

**NOTE 18 Finance costs**

	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Interest cost	124	113	244	221
Other finance costs	0	0	0	1
<b>Total</b>	<b>124</b>	<b>113</b>	<b>244</b>	<b>222</b>

**NOTE 19 Earnings per share**

		2 Q 2017	2 Q 2016	6M 2017	6M 2016
Basic earnings per share					
Weighted average number of shares (thousand)	pcs	40,795	40,795	40,795	40,795
Net profit (loss)		199	346	-391	-147
<b>Basic earnings per share</b>	<b>EUR</b>	<b>0.00</b>	<b>0.01</b>	<b>-0.01</b>	<b>0.00</b>
<b>Diluted earnings per share</b>	<b>EUR</b>	<b>0.00</b>	<b>0.01</b>	<b>-0.01</b>	<b>0.00</b>

There were no dilutive instruments in the reporting period. Instruments that could potentially dilute basic earnings per share are J-bonds and the share option program. Their dilutive effect is contingent on the share price and whether the Group has generated a profit.

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

**NOTE 20 Related parties**

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the financial and management decisions of the other one in accordance with IAS 24, Related Party Disclosures. Not only the legal form of the transactions and mutual relationships, but also their actual substance has been taken into consideration when defining related parties.

For the reporting purposes in consolidated interim statements of the Group, the following entities have been considered related parties:

- owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 11);
- members of the Management Board and the Supervisory Board<sup>1</sup>;
- 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.

<sup>1</sup>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**

<b>Purchases</b>	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Services	6	3	12	6
<b>Total</b>	<b>6</b>	<b>3</b>	<b>12</b>	<b>6</b>



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

### Balances with related parties

	30 June 2017	31 Dec 2016
Other current loans and interests (Note 8, 9)	3,232	2,973
<b>Payables to related parties total</b>	<b>3,232</b>	<b>2,973</b>

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

All transactions in 2017 as well as in 2016 reporting periods and balances with related parties as at 30 June 2017 and 31 December 2016 were with entities under the control or significant influence of the members of the Management Board and Supervisory Board.

### Compensation for the members of the Management Board and Supervisory Board

	2 Q 2017	2 Q 2016	6M 2017	6M 2016
Salaries of the members of the Management Board (excluding social tax)	84	64	135	134
Remuneration of the members of the Supervisory Board (excluding social tax)	3	3	7	7
<b>Total</b>	<b>87</b>	<b>67</b>	<b>142</b>	<b>141</b>

As at 31 December 2017 there were three Management Board Members and as at 31 December 2016 there were two Management Board Members. As at 30 June 2017 and 31 December 2016 there were five Supervisory Board Members.

#### *Changes in the Management Board in 2017*

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

#### *Changes in the Management Board in 2016*

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

From March 17, 2016 the Supervisory Board of AS Baltika decided to recall Kati Kusmin from the Management Board.

Convertible bonds (J-bonds) are partly issued to related parties (Note 11).

In 2015 share options were issued to the Management Board members under the share option program.



## AS BALTIKA SUPERVISORY BOARD



### **JAAKKO SAKARI MIKAEL SALMELIN**

Chairman of the Supervisory Board since 23 May 2012, Member of the Supervisory Board since 21.06.2010

Partner, KJK Capital Oy

Master of Science in Finance, Helsinki School of Economics

Other assignments:

Member of the Management Board of KJK Fund SICAV-SIF,

Member of the Board of Directors, KJK Management SA,

Member of the Board of Directors, KJK Capital Oy,

Member of the Management Board, KJK Invest Oy,

Member of the Management Board of Amiraali Invest Oy.

Baltika shares held on 30 June 2017: 0



### **TIINA MÕIS**

Member of the Supervisory Board since 03.05.2006

Chairman of the Management Board of AS Genteel

Degree in Economical Engineering, Tallinn University of Technology

Other assignments:

Member of the Supervisory Board of AS LHV Pank and AS LHV Group,

Baltika shares held on 30 June 2017: 977,837 shares (on AS Genteel account)



### **REET SAKS**

Member of the Supervisory Board since 25.03.1997

Attorney at Raidla Ellex Law Office

Degree in Law, University of Tartu

Other assignments

Member of the Management board of Non-profit organization AIPPI Estonian workgroup

Baltika shares held on 30 June 2017: 0



**LAURI KUSTAA ÄIMÄ**

Member of the Supervisory Board since 18.06.2009

Managing Director of Kaima Capital Oy

Master of Economics, University of Helsinki

Other assignments:

Member of the Supervisory Board of AS Tallink Grupp,

Member of the Board of Oy Tallink Silja Ab,

Member of the Board of KJK Invest Oy,

Member of the Board of Kaima Capital Eesti OÜ,

Member of the Board of Aurejärvi Varainhoito Oy,

Member of the Board of UAB Malsena Plius,

Member of the Board of UAB D Investiciju Valdymas,

Member of the Board of Bostads AB Blåklinten Oy,

Member of the Board of KJK Serbian Holdings BV,

Member of the Board of AS Baltic Mill,

Member of the Board of KJK Investicije d.o.o,

Member of the Board of KJK Investicije 2 d.o.o,

Member of the Board of KJK Investicije 3 d.o.o,

Member of the Board of KJK Investicije 4 d.o.o,

Member of the Board of KJK Investicije 5 d.o.o,

Member of the Board of KJK Investicije 6 d.o.o,

Member of the Board of KJK Investicije 7 d.o.o,

Vice-chairman of the Board of AAS BAN,

Vice-chairman of the Management Board of Amber Trust Management SA,

Chairman of the Management Board of Amber Trust II Management SA,

Chairman of the Management Board of KJK Fund SICAV-SIF,

Chairman of the Management Board of KJK Fund II SICAV-SIF,

Chairman of the Supervisory Board of Salva Kindlustuse AS,

Chairman of the Supervisory Board of AS PRFoods,

Member of the Supervisory Board of Managetrade OÜ,

Member of the Supervisory Board of Toode AS,

Chairman of the Supervisory Board of JSC Rigas Dzirnāvieks,

Chairman of the Board of Directors, KJK Management SA,

Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 30 June 2017: 24 590 shares (on Kaima Capital Eesti OÜ account)



**VALDO KALM**

Member of the Supervisory Board since 20.04.2012

Chairman of the Board of Port of Tallinn

Automation and telemechanics, Tallinn University of Technology

Other assignments:

Member of the Management Board of OÜ VK CO

Baltika shares held on 30 June 2017: 0



## AS BALTIKA MANAGEMENT BOARD



### **MEELIS MILDER**

Chairman of the Management Board, Group CEO  
Chairman of the Board since 1991, in the Group since 1984  
Degree in Economic Cybernetics, University of Tartu  
Baltika shares held on 30 June 2017: 1,013,735 shares<sup>1</sup>



### **MAIGI PÄRNIK-PERNIK**

Member of the Management Board, Chief Financial Officer  
Member of the Board since 2011, in the Group since 2011  
Degree in Economics, Tallinn University of Technology,  
Master of Business Administration, Concordia International University  
Baltika shares 30 June 2017: 0



### **INGRID KORMIK**

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

<sup>1</sup>Member of the Management Board of AS Baltika also own shares through the holding company OÜ BMIG (see Corporate governance annual report section “Management Board”).