AS BALTIKA

Consolidated interim report for the second quarter and 6 months of 2018

Commercial name	AS Baltika
Commercial registry number	10144415
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E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2018 – 31 December 2018
Reporting period	1 January 2018 – 30 June 2018

CONTENTS

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

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 2018 the Group employed 1,014 people (31 December 2017: 1,026).

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

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding as at 30 June 2018	Holding as at 31 Dec 2017
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[2]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[2]	Lithuania	Retail	100%	100%
OY Baltinia AB	Finland	Retail	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%

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

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, SECOND QUARTER AND 6 MONTHS OF 2018

Baltika Group ended the second quarter with a net profit of 127 thousand euros. The result for the same period last year was a net profit of 199 thousand euros.

In the second quarter the Group's revenue decreased 6% compared to same period last year and was 11,041 thousand euros. Revenue decreased mainly due to fall in wholesale and franchise sales related to the unstable economic situation in Russia and Ukraine. The biggest sales segment – retail revenue was 9,716 thousand euros in the second quarter, decreasing 2% i.e by 175 thousand euros compared to same period last year. Retail sales were strong in April and May, when the weather conditions, warmer than usual, were favoring sales of the summer goods. Due to successful collection of the new season, the share of full-priced sales increased and Baltic retail system earned more gross profit than in the second quarter last year. In new retail market, Finland, rental contract of the pop-up store located in Espoo Iso Omena shopping centre, was prolonged untill the end of the year and the general growth plan for Finnish market, that covers all sales channels, is in preparation.

Wholesale and franchise revenue decreased 39% compared to the second quarter last year and was 834 thousand euros. One of the reasons for the decline in the second quarter's sales were weak sales results in Russia and Ukraine, therefore the shipments to the wholesale and franchise partners in that region have been reduced. At the end of the second quarter there were 29 franchise stores representing Baltika's brands, forming 24% of the total stores portfolio. In six months, wholesale and franchise revenue decreased 21% and amounted to 2,536 thousand euros. In July, the contract for entering Slovenian and Croatian market was signed with one of the leading retail company in the region Montecristo SL d.o.o. First shipments for the three department stores of Montecristo are planned in August.

Baltika Group's e-store Andmorefashion.com revenue increased 2% in the second quarter compared to same period last year and was 379 thousand euros. At the same time the gross margin improved by 3.7 percentage points in the second quarter and gross profit increased 12%. Gross profit growth was attributable to better inventory management, due to that the offering of the discounted products in e-store was more modest than last year. Mosaic formed 33% of the quarter sales, followed by Monton with 31%. Compared to the second quarter last year, sales growth was highest in Estonia +8%, in Latvia +4%, in Lithuania +3% and in Finland 3%. Half-year's sales increase was 18% and revenue totalled 849 thousand euros.

The company's gross profit margin in the second quarter was 54.6% that is 3.3 percentage points higher than the margin in the second quarter of last year. As the result of good sell-through of collections, the inventory level of the previous seasons had smaller share and full-priced new season goods were sold more. The gross profit for the quarter was 6,032 thousand euros, remaining at the level of the second quarter last year (II quarter 2017: 6,014 thousand euros). Half-year total gross profit amounted to 10,915 thousand euros (I half-year 2017: 11,264 thousand euros).

In the second quarter, Group's distribution expenses increased by 2% that is related to growth of retail sales area and entering Finnish market. At the same time administrative expenses decreased by 9%. Due to decreased sales in the second quarter, the distribution and general expense ratio to revenue increased over the year by 3.6 percentage points to 52.3%.

Baltika's revenue decreased 5% in the first half-year compared to same period last year. E-store showed revenue growth 18%, retail revenue decreased 3% and wholesale and franchise sales decreased 21%. Company ended the half-year with a loss in the amount of 855 thousand euros, the comparative result from previous year was a loss in the amount of 391 thousand euros. The main reasons of the half-year's worse result were the first quarter's lower sales in retail, decrease in wholesale and franchise sales in the second quarter and increased distribution expenses due to entering Finnish retail market.

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

- 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.

BaltikaGroup Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

- In May, 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 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 the second quarter, two retail network stores were closed in Estonia and two franchise stores were closed in Ukraine.

REVENUE

In the second quarter Baltika's revenue was 11,041 thousand euros, decreasing 6% compared to same period last year. By sales channels comparison, e-commerce showed positive result with 2% growth of sales.

Revenue by activity

EUR thousand	2 Q 2018	2 Q 2017	+/-	6M 2018	6M 2017	+/-
Retail	9,716	9,891	-2%	17,853	18,415	-3%
Wholesale & Franchise	834	1,376	-39%	2,536	3,221	-21%
E-com sales	379	371	2%	849	720	18%
Other	112	94	19%	146	133	10%
Total	**11,041**	**11,732**	**-6%**	**21,384**	**22,489**	**-5%**

Stores and sales area

As at 30 June 2018, Group had 122 stores, among them 29 franchise stores. In the second quarter, the number of stores decreased by four. In Estonia, Baltika closed Ivo Nikkolo store in Tallinn Kristiine centre and Bastion store in Tartu Tasku shopping centre. Two franchise stores were closed in Ukaine – in Kiev and in Odessa.

Stores by market

	30 June 2018	30 June 2017	Average area change*
Estonia	40	43	1%
Lithuania	30	29	1%
Latvia	22	22	0%
Finland	1	0	-
Ukraine[1]	13	15	-5%
Russia[1]	11	11	-8%
Belarus[1]	2	2	-5%
Spain[1]	2	3	-28%
Serbia[1]	1	1	57%
Total stores	**122**	**126**	
Total sales area, sqm	**23,098**	**23,545**	**-1%**

*Yearly average area change also takes into account the time store is closed for renovation
[1]Franchise shops are with a total sales area of 5,667 m^2.

Retail

Retail revenue in the second quarter was 9,716 thousand euros, decreasing 2% compared to same period last year. Sales in April exceeded the last year's level and due to smaller discounts, strong increase in gross profit was achieved. In May, the number of shop visitors increased, that resulted in sales growth and improvement of gross profit margin in all markets. After good sales in April and May, weak sales result was followed in June. In total, retail sales decreased in the second quarter, but at the same time, due to improved gross profit margin, the gross profit increased in all markets. In first half-year, retail sales decreased 3% and totalled 17,853 thousand euros.

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

Retail sales by market

EUR thousand	2 Q 2018	2 Q 2017	+/-	Share	6M 2018	6M 2017	+/-	Share
Estonia	4,775	4,907	-3%	49%	8,755	8,980	-3%	49%
Lithuania	2,422	2,448	-1%	25%	4,454	4,705	-5%	25%
Latvia	2,484	2,536	-2%	26%	4,576	4,730	-3%	26%
Finland	35	0	-	0%	68	0	-	0%
Total	**9,716**	**9,891**	**-2%**	**100%**	**17,853**	**18,415**	**-3%**	**100%**

In the second quarter, the sales efficiency in Estonia remained at last year level. Sales per square meter in Latvia and Lithuania decreased and in total the quarter efficiency in retail decreased 1%. The biggest decline was recorded in Lithuania, where sales efficiency dropped 5%.

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

	2 Q 2018	2 Q 2017	+/-	6M 2018	6M 2017	+/-
Estonia	208	207	0%	186	193	-4%
Lithuania	144	148	-3%	134	141	-5%
Latvia	208	211	-1%	193	199	-3%
Finland	91	0	-	87	0	-
Total	**187**	**189**	**-1%**	**170**	**178**	**-4%**

Brands

There were no significant changes in brand's share of retail sales. The brand with the biggest share continues to be Monton, which revenues formed 42% of retail sales in the second quarter. Monton's second quarter sales were 4,122 thousand euros, decreasing 2%. Monton's half-year sales decreased 3%. Sales of the second largest brand Mosaic decreased 1% in the second quarter and 2% in half-year compared to sales a year before.

The smallest brand by its sales' volume, Bastion, stood up to the half-year's challenges increasing sales by 3% in the second quarter and by 1% in half-year.

Retail revenue by brand

EUR thousand	2 Q 2018	2 Q 2017	+/-	Share	6M 2018	6M 2017	+/-	Share
Monton	4,122	4,214	-2%	42%	7,570	7,788	-3%	42%
Mosaic	3,072	3,101	-1%	32%	5,551	5,688	-2%	31%
Baltman	1,131	1,178	-4%	12%	2,022	2,160	-6%	11%
Ivo Nikkolo	892	916	-3%	9%	1,800	1,880	-4%	10%
Bastion	490	476	3%	5%	901	893	1%	5%
Other	9	6	50%	0%	9	6	50%	0%
Total	**9,716**	**9,891**	**-2%**	**100%**	**17,853**	**18,415**	**-3%**	**100%**

Sales in other channels

Wholesale and franchise revenue decreased 39% compared to the second quarter last year and was 834 thousand euros. The main reason for the decline in the second quarter's sales was the decreased franchise sales in Russia and Ukraine. Due to lack of consumer purchasing activity in Ukraine and Russia, the solvency of the franchise partners there has worsened and Group's trade receivables from them has increased. In relation to risen risk, the amount of shipped goods to the partners has been reduced. After the opening of Monton store in the beginning of 2017 in Tallinn Viru Centre, the Monton products are no longer sold through the wholesale partner (Department Store) who is operating in the same shopping centre; therefore wholesale in Estonia has decreased. The biggest brand in wholesale and franchise was Monton with 56% share of sales. At the end of the second quarter there were 29 franchise stores representing Baltika's brands, forming 24% of the total stores portfolio. Wholesale and franchise revenue decreased 21% in first half-year and was 2,536 thousand euros.

Baltika Group's e-store Andmorefashion.com revenue increased 2% in the second quarter compared to same period last year and was 379 thousand euros. The modest sales growth in the second quarter was related to the significantly lower than usual offering of the collections from previous seasons. Due to smaller discount, the gross margin improved by 3.7 percentage points in the second quarter and gross profit increased 12%. Out of the quarter sales, Mosaic formed 33%, Monton 31%, Ivo Nikkolo 19%, Bastion 12% and Baltman 5%. In the second quarter, 7,221 orders to 30 counties were shipped. Sales were largest in Estonia with a share of 58% from e-store total sales, followed by Latvia with 16% and Lithuania 14%. Compared to the second quarter last year, sales grew in Baltics and Finland: Estonia +8%, Latvia +4%, Lithuania +3% and Finland 3%. Half-year's sales increase was 18% and revenue totalled 849 thousand euros.

OPERATING EXPENSES AND NET PROFIT

The company's gross profit margin in the second quarter was 54.6% that is higher by 3.3 percentage points than the margin in the second quarter of last year. As the result of successful season collections among customers and improved planning of inventory, the share of stock of previous seasons was small and full-priced new collections were sold more. Due to smaller discount, the gross profit margin improved in all retail markets. The gross profit for the quarter was 6,032 thousand euros, remaining at the level of the second quarter last year (IIQ 2017: 6,014 thousand euros). Half-year in total, gross profit amounted to 10,915 thousand euros, that is less by 349 thousand euros compared to first half-year in 2017.

Group's distribution expense in the second quarter was 5,209 thousand euros, increasing by 116 thousand euros compared to the same period last year. Distribution expense in the head office was lower than in the comparable period last year. Distribution expenses has increased in retail segment due to growth of operating expenses related to rental agreements and due to costs related to entering Finnish market. Groups's distribution expense increased by 2% in the second quarter. At the same time administrative and general expenses decreased by 9%. Due to decreased sales in the second quarter, the distribution and general expense ratio to revenue increased within year by 3.6 percentage points to 52.3%. In half-year total Group's distribution and general expenses increased by 1% and amounted to 11,497 thousand euros.

Other operating income was 4 thousand euros in the second quarter and operating profit was 261 thousand euros. In same period last year, the operating profit was 323 thousand euros.

Net financial expense in the second quarter was 134 thousand euros, which is 10 thousand euros more than in the same period last year.

The quarter resulted in a net profit of 127 thousand euros. Net loss of the comparable period was 199 thousand euros. The half-year resulted in a net loss of 855 thousand euros; net loss in comparable period was for 391 thousand euros.

FINANCIAL POSITION

As at 30 June 2018, Baltika Group trade and other receivables amounted to 2,861 thousand euros, increasing by 806 thousand euros compared to the end of last year. Increase is mainly related to receivables from wholesale and franchise partners.

As at the end of the quarter, Group's inventories totalled 11,490 thousand euros, increasing by 991 thousand euros compared to the end of last year. The increase was in goods and goods purchased for resale (by 513 thousand euros), in fabrics and accessories (by 160 thousand euros) and also in prepayments to suppliers (by 318 thousand euros). Compared to same seasonal business cycle as at the end of June last year, inventories decreased by 410 thousand euros, which is attributable to goods and goods purchased for resale.

In the second quarter, purchases of fixed assets were made in the amount of 186 thousand euros and deprecation was 266 thousand euros. Property, plant and equipment and intangible assets at residual value decreased by 285 thousand euros compared to last year-end and were 3,623 thousand euros.

As at 30 June 2018 the total borrowings amounted to 8,692 thousand euros, which together with the use of overdraft facility signifies an increase of 2,020 thousand euros compared to the end of last year (31 December 2017: 6,672 thousand euros). The increase in borrowings is attributable to the increase in the use of overdraft due to the seasonal business cycle.

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

The second quarter operating activities cash-flow was -13 thousand euros (II quarter 2017: 853 thousand euros). In the second quarter, investments were made in the amount of 186 thousand euros. Overdraft in use increased by 248 thousand euros, bank loan repayments were made in the amount of 125 thousand euros. Group's second quarter total cash flow was -101 thousand euros (II quarter 2017: -301 thousand euros).

As at 30 June 2018 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 8,308 thousand euros, which is 2,340 thousand euros more than at the end of last year. The net debt to equity ratio was 192% as at 30 June 2018 (31 December 2017: 115%). Compared to last year end 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. Compared to same seasonal business cycle last year, Group's net debt to equity ratio has increased (30 June 2017: 164%) mainly due to liabilities related to K-bonds. Group's current ratio has improved over 12 months (as at 30 June 2017 and as at 30 June 2018) from 1.0 to 1.6.

PEOPLE

As at 30 June 2018 Baltika Group employed 1,014 people, which is 12 people less than at 31 December 2017 (1,026), thereof 481 (31.12.2017: 488) in the retail system, 357 (31.12.2017: 363) in manufacturing and 176 (31.12.2017: 175) at the head office and logistics centre. The 2018 first half-year's average number of staff in the Group was 1,018 (I half-year 2017: 1,054).

Baltika Group employees' remuneration expense in the first half-year amounted to 5,337 thousand euros (I half-year 2017: 5,282 thousand euros). The remuneration expense of the members of the Supervisory Board and Management Board totalled 130 thousand euros (I half-year 2017: 142 thousand euros).

KEY FIGURES OF THE GROUP (II QUARTER AND 6 MONTHS 2018)

	Q2 2018	Q2 2017	Q2 2016	Q2 2015[1]	Q2 2015	Q2 2014
Revenue (EUR thousand)	11,041	11,732	11,818	12,079	13,181	13,225
Retail sales (EUR thousand)	9,716	9,891	10,290	10,692	11,795	12,319
Share of retail sales in revenue	88.0%	84.3%	87.1%	88.5%	89.5%	93.1%
Gross margin	54.6%	51.3%	52.3%	51.0%	52.1%	56.3%
EBITDA (EUR thousand)	527	645	790	554	520	1,053
Net profit (EUR thousand)	127	199	346	127	67	647
EBITDA margin	4.8%	5.5%	6.7%	4.6%	3.9%	8.0%
Operating margin	2.4%	2.8%	3.9%	2.1%	1.4%	5.7%
EBT margin	1.2%	1.7%	2.9%	1.1%	0.5%	5.0%
Net margin	1.2%	1.7%	2.9%	1.1%	0.5%	4.9%

Sales activity key figures	6M and 30 June 2018	6M and 30 June 2017	6M and 30 June 2016	6M and 30 June 2015[1]	6M and 30 June 2015	6M and 30 June 2014
Revenue (EUR thousand)	21,384	22,489	22,323	23,299	25,506	26,672
Retail sales (EUR thousand)	17,853	18,415	18,718	20,027	22,234	24,704
Share of retail sales in revenue	83.5%	81.9%	83.9%	86.0%	87.2%	92.6%
Share of exports in revenue	54.5%	56.0%	56.0%	57.1%	60.8%	65.3%
Number of stores in retail	93	94	94	93	104	107
Number of stores	122	126	130	120	131	126
Sales area (sqm) (end of period)	17,431	17,396	16,766	16,936	24,473	20,777
Number of employees (end of period)	1,014	1,057	1,070	1,143	1,231	1,248
Gross margin	51.0%	50.1%	51.5%	48.3%	48.4%	51.7%
EBITDA (EUR thousand)	-50	493	731	165	-194	-1,013
Net profit (EUR thousand)	-855	-391	-147	-656	-1,069	-1,834
EBITDA margin	-0.2%	2.2%	3.3%	0.7%	-0.8%	-3.8%
Operating margin	-2.8%	-0.7%	0.3%	-1.8%	-3.3%	-6.2%
EBT margin	-4.0%	-1.7%	-0.7%	-2.8%	-4.2%	-6.8%
Net margin	-4.0%	-1.7%	-0.7%	-2.8%	-4.2%	-6.9%
Inventory turnover	1.95	2.00	1.98	1.91	1.94	1.92

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

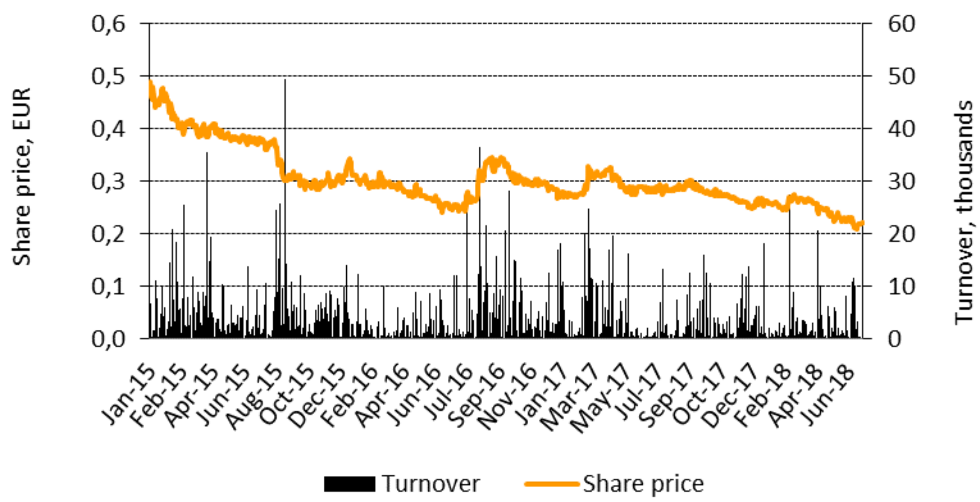
Other ratios[2]	6M and 30 June 2018	6M and 30 June 2017	6M and 30 June 2016	6M and 30 June 2015	6M and 30 June 2014
Current ratio	1.6	1.0	1.3	1.8	1.5
Net gearing ratio	191.8%	164.3%	154.1%	96.1%	61.7%
Return on equity	-19.0%	-8.5%	-2.9%	-12.4%	-17.6%
Return on assets	-4.6%	-2.0%	-0.6%	-4.5%	-7.6%

[1]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.
[2]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.

Meelis Milder
Chairman of the Management Board
19 July 2018

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

INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the second quarter and 6 months of 2018 as presented on pages 11-30.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;

2. the financial statements give a true and fair view of the assets and liabilities of the Group comprising of the parent company and other Group entities as well as its financial position, its results of the operations and the cash flows of the Group; and its cash flows;

3. the Group is going concern.

Meelis Milder
Chairman of the Management Board
19 July 2018

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2018	31 Dec 2017
ASSETS			
Current assets			
Cash and cash equivalents	3	384	704
Trade and other receivables	4	2,861	2,055
Inventories	5	11,490	10,499
Total current assets		**14,735**	**13,258**
Non-current assets			
Deferred income tax asset		189	189
Other non-current assets	4	461	487
Property, plant and equipment	6	2,122	2,395
Intangible assets	7	1,501	1,513
Total non-current assets		**4,273**	**4,584**
TOTAL ASSETS		**19,008**	**17,842**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	8	3,419	1,309
Trade and other payables	9,10	5,985	5,984
Total current liabilities		**9,404**	**7,293**
Non-current liabilities			
Borrowings	8	5,273	5,363
Total non-current liabilities		**5,273**	**5,363**
TOTAL LIABILITIES		**14,677**	**12,656**
EQUITY			
Share capital at par value	11	4,079	8,159
Share premium		0	496
Reserves	11	1,107	1,345
Retained earnings		0	-4,872
Net profit (-loss) for the period		-855	58
TOTAL EQUITY		**4,331**	**5,186**
TOTAL LIABILITIES AND EQUITY		**19,008**	**17,842**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

	Note	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Revenue	12,13	11,041	11,732	21,384	22,489
Cost of goods sold	14	-5,009	-5,718	-10,469	-11,225
Gross profit		**6,032**	**6,014**	**10,915**	**11,264**
Distribution costs	15	-5,209	-5,093	-10,336	-10,152
Administrative and general expenses	16	-566	-620	-1,161	-1,279
Other operating income (-expense)	17	4	22	-13	20
Operating profit (loss)		**261**	**323**	**-595**	**-147**
Finance costs	18	-134	-124	-260	-244
Profit (loss) before income tax		**127**	**199**	**-855**	**-391**
Income tax expense		0	0	0	0
Net profit (loss) for the period		**127**	**199**	**-855**	**-391**
Total comprehensive income (loss) for the period		**127**	**199**	**-855**	**-391**
Basic earnings per share from net loss for the period, EUR	19	0.00	0.00	-0.02	-0.01
Diluted earnings per share from net loss for the period, EUR	19	0.00	0.00	-0.02	-0.01

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Cash flows from operating activities					
Operating profit (loss)		261	323	-595	-147
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	266	322	545	638
Gain (loss) from sale, impairment of PPE, non-current assets, net		3	0	4	2
Other non-monetary adjustments		10	-3	0	-1
Changes in working capital:					
Change in trade and other receivables	4	89	-119	-780	-587
Change in inventories	5	-1,363	-810	-991	-804
Change in trade and other payables	9	778	1,208	1	385
Interest paid and other financial expense		-57	-68	-88	-132
Net cash generated from (used in) operating activities		**-13**	**853**	**-1,904**	**-646**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-186	-70	-264	-227
Proceeds from disposal of PPE		0	0	0	2
Net cash used in investing activities		**-186**	**-70**	**-264**	**-225**
Cash flows from financing activities					
Received borrowings	8	0	500	0	500
Repayments of borrowings	8	-125	-287	-328	-544
Change in bank overdraft	8	248	-1,248	2,249	898
Repayments of finance lease		-25	-49	-73	-98
Net cash generated from (used in) financing activities		**98**	**-1,084**	**1,848**	**756**
Total cash flows		**-101**	**-301**	**-320**	**-115**
Cash and cash equivalents at the beginning of the period	3	**485**	**605**	**704**	**419**
Cash and cash equivalents at the end of the period	3	**384**	**304**	**384**	**304**
Change in cash and cash equivalents		**-101**	**-301**	**-320**	**-115**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

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	-391	-391
Total comprehensive loss	**0**	**0**	**0**	**-391**	**-391**
Balance as at 30 June 2017	**8,159**	**496**	**1,182**	**-5,263**	**4,574**
Balance as at 31 Dec 2017	**8,159**	**496**	**1,345**	**-4,814**	**5,186**
Loss for the period	0	0	0	-855	-855
Total comprehensive loss	**0**	**0**	**0**	**-855**	**-855**
Reduction of the nominal value of the share	-4,080	-496	-238	4,814	0
Balance as at 30 June 2018	**4,079**	**0**	**1,107**	**-855**	**4,331**

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 employes 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 2018 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2017, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017. New and revised standards and interpretations effective from 1 January 2018 do not have a significant impact on the Group's financial statements as of preparing the interim financial report.

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

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

NOTE 2 Financial risks

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

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

Market risk

Foreign exchange risk

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

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

Average currencies	6M 2018	6M 2017
USD (US dollar)	11.76%	-2.95%

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

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

Balance-sheet date rates (30.06.2018; 31.12.2017)	
USD (US dollar)	-2.79%

Cash and cash equivalents (Note 3), trade receivables (Note 4) and borrowings (Note 8) are in euro and thereof not open to foreign exchange risk. Trade payables (Note 9) are also in foreign currency and therefore open to foreign exchange risk.

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

Interest rate risk

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

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

Non-current borrowings in the amount of 692 thousand euros at 30 June 2018 and 953 thousand euros at 31 December 2017 were subject to a floating 6 month interest rate based on Euribor. The remaining non-current borrowings in the amount of 4,445 thousand euros (at nominal value) at 30 June 2018 were subject to a fixed interest rate (31 December 2017: 4,445 thousand euros). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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

Price risk

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

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as all outstanding trade receivables.

Cash and cash equivalents

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

Trade receivables

As at 30 June 2018 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 4) amounted to 2,538 thousand euros (31 December 2017: 1,874 thousand euros) on a net basis after allowances.

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

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, issuance of additional shares and monitors the terms of receivables and purchase contracts. The unused limit of the Group´s overdraft facilities as at 30 June 2018 was 1,114 thousand euros (31 December 2017: 3,363 thousand euros).

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

Financial liabilities by maturity at 30 June 2018

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	4,009	3,454	641	4,095
Finance lease liabilities (Note 8)	102	38	71	109
Convertible bonds (Note 8)	4,581	0	4,994	4,994
Trade payables (Note 9)	3,047	3,047	0	3,047
Other financial liabilities	25	25	0	25
Total	**11,764**	**6,564**	**5,706**	**12,270**

Financial liabilities by maturity at 31 December 2017

		Undiscounted cash flows[1]		
	Carrying amount	1-12 months	1-5 years	Total
Loans (Note 8)[2]	2,087	1,272	905	2,177
Finance lease liabilities (Note 8)	175	100	80	180
Convertible bonds (Note 8)	4,410	0	4,994	4,994
Trade payables (Note 9)	2,994	2,994	0	2,994
Other financial liabilities	22	22	0	22
Total	**9,688**	**4,388**	**5,979**	**10,367**

[1]For interest bearing borrowings carrying a floating interest rate based on Euribor, the last applied spot rate to loans has been used.
[2]Used overdraft facilities are shown under loans based on the contractual date of payment.

Operational risk

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

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

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

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

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

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

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

Capital management

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

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

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

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

The Group's long term goal is to maintain the net gearing ratio under 50%. At the end of the reporting period the ratio was 192%. In the end of 2017 the ratio was 115%. The deterioration of the ratio compared to the year end is influenced by the seasonality of the business characteristic to the first half-year and the resulting increased borrowings. The Group also monitors other ratios e.g. net debt to EBITDA and net debt to share capital. Based on the above, the Group deems the capital structure to be in an acceptable range.

Net gearing ratio

	30 June 2018	31 Dec 2017
Interest carrying borrowings (Note 8)	8,692	6,672
Cash and bank (Note 3)	-384	-704
Net debt	8,308	5,968
Total equity	4,331	5,186
Net gearing ratio	**192%**	**115%**

Fair value

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

NOTE 3 Cash and cash equivalents

	30 June 2018	31 Dec 2017
Cash at hand	96	120
Cash at bank and overnight deposits	288	584
Total	**384**	**704**

All cash and cash equivalents are denominated in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables	30 June 2018	31 Dec 2017
Trade receivables, net	2,363	1,628
Other prepaid expenses	225	181
Tax prepayments and tax reclaims, thereof	223	198
Value added tax	223	198
Other current receivables	50	48
Total	**2,861**	**2,055**
Long-term assets		
Non-current lease prepayments	286	276
Other long-term receivables	175	211
Total	**461**	**487**

All trade and other receivables are in euros.

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

30 June 2018	Baltic region	Eastern European region	Other regions	Total
Not due	226	626	9	861
Up to 1 month past due	15	104	0	119
1-3 months past due	3	188	63	254
3-6 months past due	0	619	50	669
Over 6 months past due	1	422	37	460
Total	**245**	**1,959**	**159**	**2,363**

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

NOTE 5 Inventories

	30 June 2018	31 Dec 2017
Fabrics and accessories	2,074	1,914
Work-in-progress	97	97
Finished goods and goods purchased for resale	8,477	8,174
Allowance for impairment of finished goods and goods purchased for resale	0	-210
Prepayments to suppliers	842	524
Total	**11,490**	**10,499**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Total
31 December 2016				
Acquisition cost	**2,838**	**4,718**	**4,813**	**12,369**
Accumulated depreciation	-1,746	-4,310	-3,291	-9,347
Net book amount	**1,092**	**408**	**1,522**	**3,022**
Additions	114	12	146	272
Disposals	-1	0	-29	-30
Depreciation	-195	-59	-277	-531
30 June 2017				
Acquisition cost	2,950	4,726	4,905	12,581
Accumulated depreciation	-1,940	-4,365	-3,543	-9,848
Net book amount	**1,010**	**361**	**1,362**	**2,733**
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	105	35	85	225
Disposals	-1	0	-3	-4
Depreciation	-183	-60	-251	-494
30 June 2018				
Acquisition cost	2,926	4,771	4,818	12,515
Accumulated depreciation	-2,144	-4,425	-3,824	-10,393
Net book amount	**782**	**346**	**994**	**2,122**

NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
31 December 2016					
Acquisition cost	**2,092**	**1,243**	**0**	**509**	**3,844**
Accumulated depreciation	-1,787	-381	0	0	-2,168
Net book amount	**305**	**862**	**0**	**509**	**1,676**
Additions	11	0	2	0	13
Amortisation	-86	-22	0	0	-108
30 June 2017					
Acquisition cost	**2,103**	**1,243**	**2**	**509**	**3,857**
Accumulated depreciation	-1,873	-403	0	0	-2,276
Net book amount	**230**	**840**	**2**	**509**	**1,581**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

31 December 2017					
Acquisition cost	**2,107**	**1,243**	**0**	**509**	**3,859**
Accumulated depreciation	-1,921	-425	0	0	-2,346
Net book amount	**186**	**818**	**0**	**509**	**1,513**
Additions	1	0	38	0	**39**
Amortisation	-11	-40	0	0	**-51**
30 June 2018					
Acquisition cost	**2,108**	**1,243**	**38**	**509**	**3,898**
Accumulated depreciation	-1,932	-465	0	0	-2,397
Net book amount	**176**	**778**	**38**	**509**	**1,501**

NOTE 8 Borrowings

	30 June 2018	**31 Dec 2017**
Current borrowings		
Current portion of bank loans	498	575
Overdraft	2,886	637
Current portion of finance lease liabilities	35	97
Total	**3,419**	**1,309**
Non-current borrowings		
Non-current bank loans	625	875
Non-current finance lease liabilities	67	78
Convertible bonds, share options (Note 11)	4,581	4,410
Total	**5,273**	**5,363**
Total borrowings	**8,692**	**6,672**

During the reporting period, the Group made loan repayments in the amount of 328 thousand euros (2017: 544 thousand euros). Group´s overdraft facilities with the banks were used in the amount of 2,886 thousand euros as at 30 June 2018 (31 December 2017: 637 thousand euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 260 thousand euros, including 107 thousand euros interest expense from the convertible bonds of related party (2017: 244 thousand euros, including 93 thousand euros interest expense from the loan of related party).

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

Changes in year 2017

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

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

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

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

Changes in 2018

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

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

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR or EONIA +3,8%	4,011
K-Bonds (Note 11)	6.00%	4,445
Total		**8,556**

Interest carrying loans and bonds of the Group as at 31 December 2017

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR or EONIA +3,8%	2,262
K-Bonds (Note 11)	6.00%	4,445
Total		**6,707**

NOTE 9 Trade and other payables

	30 June 2018	31 Dec 2017
Current liabilities		
Trade payables	3,047	2,994
Tax liabilities, thereof	1,420	1,465
Personal income tax	162	189
Social security taxes and unemployment insurance premium	573	527
Value added tax	642	716
Other taxes	43	33
Payables to employees[1]	1,044	1,010
Other current payables	25	22
Other accrued expenses	44	36
Customer prepayments	74	126
Total	**5,654**	**5,653**

[1]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 2018	31 Dec 2017
EUR (euro)	1,957	1,954
USD (US dollar)	1,134	1,076
Total	**3,091**	**3,030**

NOTE 10 Provisions

	30 June 2018	31 Dec 2017
Client bonus provision	331	331
Total	**331**	**331**

Short description of the provision

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

Assumptions used

The provision is calculated using assumptions made by Management as described in the Group´s consolidated annual financial statements for the year ended 31 December 2017.

NOTE 11 Equity

Share capital and reserves

	30 June 2018	31 Dec 2017
Share capital	4,079	8,159
Number of shares (pcs)	40,794,850	40,794,850
Nominal value of share (EUR)	0.10	0.20
Statutory reserve	944	1,182
Other reserves (Note 21)	163	163

As at 30 June 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 June 2018 and 31 December 2017 all shares have been paid for. As at 30 June 2018 and 31 December 2017 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange.

Changes in year 2018

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

Convertible bonds and share option program

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

- K-bonds

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

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

- Share option programs

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

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

Shareholders as at 30 June 2018

	Number of shares	Holding
1. ING Luxembourg S.A.	15,870,914	38.90%
2. Clearstream Banking Luxembourg S.A. clients	7,295,220	17.88%
3. SEB S.A. clients	3,407,305	8.35%
4. Luksusjaht AS	900,237	2.21%
5. Svenska Handelsbanken clients	870,000	2.13%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	1,000,346	2.45%
Persons related to members of Management Board	228,583	0.56%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.46%
7. Other shareholders	10,219,818	25.06%
Total	**40,794,850**	**100%**

Shareholders as at 31 December 2017

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

The shares of the Parent company are listed on the Nasdaq Tallinn. The Parent company does not have a controlling shareholder or any shareholders jointly controlling the entity.

NOTE 12 Segments

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

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

Description of segments and principal activities:

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

- All other segments – consists of sale of goods to wholesale and franchise clients, materials and sewing services and e-commerce sales. None of these segments meet the reportable segments quantitative thresholds set out by IFRS 8 and are therefore aggregated into the All other segments category.

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

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

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

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

	Retail	All other segments[1]	Total
2 Q 2018			
Revenue (from external customers)	9,681	1,360	11,041
Segment profit[2]	1,904	199	2,103
Incl. depreciation and amortisation	-212	0	-212
2 Q 2017			
Revenue (from external customers)	9,891	1,841	11,732
Segment profit[2]	1,803	358	2,161
Incl. depreciation and amortisation	-237	-19	-256
6M 2018 and as at 30 June 2018			
Revenue (from external customers)	17,785	3,599	21,384
Segment profit[2]	2,208	647	2,855
Incl. depreciation and amortisation	-437	-1	-438
Inventories of segments	3,987	0	3,987
6M 2017 and as at 30 June 2017			
Revenue (from external customers)	18,415	4,074	22,489
Segment profit[2]	2,381	766	3,147
Incl. depreciation and amortisation	-468	-37	-505
Inventories of segments	4,214	0	4,214

[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.

Reconciliation of segment profit to consolidated operating profit

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Total segment profit	2,103	2,161	2,855	3,147
Unallocated expenses[1]:				
Costs of goods sold and distribution costs	-1,280	-1,240	-2,276	-2,035
Administrative and general expenses	-566	-620	-1,161	-1,279
Other operating income (expenses), net	4	22	-13	20
Operating profit (loss)	**261**	**323**	**-595**	**-147**

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

Reconciliation of segment inventories to consolidated inventories

	30 June 2018	30 June 2017	31 Dec 2017
Total inventories of segments	3,987	4,214	4,214
Inventories in Parent company and production company	7,503	7,686	6,597
Inventories on statement of financial position	**11,490**	**11,900**	**10,499**

NOTE 13 Revenue

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Sale of goods in retail channel	9,716	9,891	17,853	18,415
Sale of goods in wholesale and franchise channel	834	1,376	2,536	3,221
Sale of goods in e-commerce channel	379	371	849	720
Other sales	112	94	146	133
Total	**11,041**	**11,732**	**21,384**	**22,489**

Sales by geographical (client location) areas

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Estonia	5,250	5,347	9,737	9,900
Latvia	2,576	2,659	4,818	5,006
Lithuania	2,480	2,509	4,585	4,829
Russia	261	453	851	1,042
Ukraine	148	184	376	512
Germany	67	185	193	342
Austria	63	112	195	222
Cyprus	0	68	107	169
Serbia	22	105	72	188
Spain	56	52	149	130
Finland	74	46	195	122
Other countries	44	12	106	27
Total	**11,041**	**11,732**	**21,384**	**22,489**

NOTE 14 Cost of goods sold

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Materials and supplies	3,828	4,558	8,320	9,230
Payroll costs in production	899	874	1,783	1,745
Operating lease expenses	171	172	342	343
Other production costs	93	93	198	206
Depreciation of assets used in production (Note 6,7)	18	21	36	41
Changes in inventories	0	0	-210	-340
Total	**5,009**	**5,718**	**10,469**	**11,225**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

NOTE 15 Distribution costs

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Payroll costs	2,374	2,277	4,673	4,577
Operating lease expenses	1,696	1,634	3,381	3,227
Advertising expenses	309	308	607	638
Depreciation and amortisation (Note 6,7)	240	281	493	557
Fuel, heating and electricity costs	107	114	241	246
Municipal services and security expenses	91	83	187	165
Fees for card payments	57	60	104	111
Travel expenses	30	41	70	85
Information technology expenses	54	46	96	84
Consultation and management fees	32	30	76	55
Communication expenses	24	24	49	50
Other sales expenses[1]	195	195	359	357
Total	**5,209**	**5,093**	**10,336**	**10,152**

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

NOTE 16 Administrative and general expenses

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Payroll costs	285	307	594	637
Operating lease expenses	102	111	204	222
Information technology expenses	57	50	105	100
Bank fees	29	36	55	84
Depreciation and amortisation (Note 6,7)	8	20	16	40
Fuel, heating and electricity expenses	13	14	33	35
Management, juridical-, auditor´s and other consulting fees	17	18	43	44
Other administrative expenses[1]	55	64	111	117
Total	**566**	**620**	**1,161**	**1,279**

[1]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 2018	2 Q 2017	6M 2018	6M 2017
Gain (loss) from sale, impairment of PPE	1	1	0	-1
Other operating income	0	57	1	83
Foreign exchange gain (-loss)	7	-33	-8	-57
Other operating expenses	-4	-3	-6	-5
Total	**4**	**22**	**-13**	**20**

NOTE 18 Finance costs

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Interest cost	-134	-124	-260	-244
Total	**-134**	**-124**	**-260**	**-244**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

NOTE 19 Earnings per share

Basic earnings per share		2 Q 2018	2 Q 2017	6M 2018	6M 2017
Weighted average number of shares (thousand)	pcs	40,795	40,795	40,795	40,795
Net loss from continuing operations		127	199	-855	-391
Basic earnings per share	**EUR**	**0.00**	**0.00**	**-0.02**	**-0.01**
Diluted earnings per share	**EUR**	**0.00**	**0.00**	**-0.02**	**-0.01**

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

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in the reporting period was 0.25 euros (2017: 0.29 euros).

NOTE 20 Related parties

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

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

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

[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

	2 Q 2018 Purchases	2 Q 2017 Purchases	6M 2018 Purchases	6M 2017 Purchases
Services	6	6	12	12
Total	**6**	**6**	**12**	**12**

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

Balances with related parties

	30 June 2018	31 Dec 2017
Other current loans and interests (Note 8, 9)	3,788	3,681
Payables to related parties total	**3,788**	**3,681**

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

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

Baltika Group Consolidated interim report for the II quarter and 6 months of 2018 (in thousands euros, unaudited)

Compensation for the members of the Management Board and Supervisory Board

	2 Q 2018	2 Q 2017	6M 2018	6M 2017
Salaries of the members of the Management Board	64	84	122	135
Remuneration of the members of the Supervisory Council	4	3	8	7
Total	**68**	**87**	**130**	**142**

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

Changes in the Management Board in 2017

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

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

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

In 2015 share options were issued to the Management Board members under the share option program. In 2018 share options will be issued among others to the Management Board members under the share option program.

AS BALTIKA SUPERVISORY BOARD

JAAKKO SAKARI MIKAEL SALMELIN
Chairman of the Supervisory Board since 23 May 2012, Member of the Supervisory Board since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy,
Member of the Management Board, KJK Invest Oy,
Member of the Management Board of Amiraali Invest Oy,
Member of the Management Board of UAB D Investiciju Valdymas.
Baltika shares held on 30 June 2018: 0

TIINA MÕIS
Member of the Supervisory Board since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Board of AS LHV Pank and AS LHV Group,
Member of the Supervisory Board of Rocca al Mare Kool
Baltika shares held on 30 June 2018: 977,837 shares (on AS Genteel account)

REET SAKS
Member of the Supervisory Board since 25.03.1997
Attorney at Raidla Ellex Law Office
Degree in Law, University of Tartu
Other assignments
Member of the Management board of Non-profit organization AIPPI Estonian workgroup
Baltika shares held on 30 June 2018: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Board since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Board of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Board of KJK Invest Oy,
Member of the Board of Kaima Capital Eesti OÜ,
Member of the Board of Aurejärvi Varainhoito Oy,
Member of the Board of UAB Malsena Plius,
Member of the Board of UAB D Investiciju Valdymas,
Member of the Board of Bostads AB Blåklinten Oy,
Member of the Board of KJK Serbian Holdings BV,
Member of the Board of AS Baltic Mill,
Member of the Board of KJK Investicije d.o.o,
Vice-chairman of the Board of AAS BAN,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Management Board of KJK Fund II SICAV-SIF,
Chairman of the Supervisory Board of Salva Kindlustuse AS,
Chairman of the Supervisory Board of AS PRFoods,
Member of the Supervisory Board of Managetrade OÜ,
Member of the Supervisory Board of Toode AS,
Chairman of the Supervisory Board of JSC Rigas Dzirnavnieks,
Chairman of the Board of Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy,
Member of the Supervisory Board of AS Saaremere Kala,
Member of the Supervisory Board of Eurohold Bulgaria AD,
Member of the Board of Leader Group 2016 AD,
Director of KJK Bulgaria Holding EOOD,
Director of Amber Trust SCA,
Director of Amber Trust II SCA,
Member of Supervisory Board of AAS Baltijas Apdrosianas.
Baltika shares held on 30 June 2018: 24 590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Board since 20.04.2012
Chairman of the Board of Port of Tallinn
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Member of the Management Board of OÜ VK CO
Baltika shares held on 30 June 2018: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 30 June 2018: 1,000,346 shares

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Baltika shares 30 June 2018: 0