AS BALTIKA

Consolidated interim report for the fourth quarter and 12 months of 2018

Commercial name	AS Baltika
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 2018 – 31 December 2018
Reporting period	1 January 2018 – 31 December 2018

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Baltika Group Consolidated interim report for the IV quarter and 12 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 31 December 2018 the Group employed 975 people (31 December 2017: 1,026).

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

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding as at 31 Dec 2018	Holding as at 31 Dec 2017
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[2]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[2]	Lithuania	Retail	100%	100%
OY Baltinia AB	Finland	Retail	100%	100%
Baltika Sweden AB	Sweden	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, FOURTH QUARTER AND 12 MONTHS OF 2018

Baltika Group ended the fourth quarter with the loss of 1,472 thousand euros, which includes an allowance for impairment, particularly for Eastern European franchise partners in the amount of 1,605 thousand euros. Last year's comparable result was net profit in the amount of 920 thousand euros.

In the fourth quarter, Group's sales revenue decreased 5% compared with the last year same period and was 12,281 thousand euros. Channel, with the largest share, retail, decreased 4% and was 11,160 thousand euros. Sales revenue decreased the most in Estonia and Lithuania, Latvian result stayed in the last year's level. Sales of formal clothes and men`s clothes continued to decline.

Business customers` (wholesale, franchise and consignation) sales revenue in fourth quarter was 604 thousand euros decreasing by 30% compared with the last year same period. The main reason for the decline in sales revenue was the change of the cooperation agreement with the department store chain in Germany and Central Europe, Peek & Cloppenburg, in this autumn, according to which Monton collections are no longer sold in most department stores in Germany. Another important reason of the decrease in sales revenue was the continued decrease in franchise sales volumes in Russia, Belarus and Ukraine.

Baltika Group's e-store Andmorefashion.com revenue increased 10% in the fourth quarter compared with the same period last year and was 472 thousand euros. Monton formed 37% of the fourth quarter's e-store sales and sales revenue increased 11% compared to year before.

Gross profit for the quarter was 6,368 thousand euros, decreasing by 754 thousand euro compared with the same period last year (4Q 2017: 7,122 thousand euros). Gross profit decrease was driven by lower sales, which was amplyfied by 3 percentage points lower gross profit margin compared with the fourth quarter of last year

(4Q 2017: 51.9%). The decrease of the margin is caused by the higher purchase prices and the increased sales volumes of the products sold at discount.

Group's distribution expense in the fourth quarter was 5,501 thousand euros, increasing by 76 thousand euros compared with the same period last year. Distribution expenses has increased in retail segment due to the growth of expenses related to rental agreements and costs related to entering Finnish retail market.

12 months of 2018

Company ended the twelve months with the loss of 3,141 thousand euros, which includes an allowance for impairment in amount of 1,605 thousand euros (particularly the allowance for impairment for Eastern European franchise partners). Last year's result was net profit in the amount of 58 thousand euros. The negative result was mainly driven by the business customers and retail sales revenue decrease, respectively nearly 2 and 1 million euro and higher distribution costs related to entering Finnish market.

In twelve months total Baltika' s sales revenue decreased by 6% and was 44,691 thousand euros. E-commerce showed sales growth by 16%, retail decreased by 3% and business customers sales decreased by 31%. Company' s gross profit was 22,316 thousand euros, which is 1,354 thousand euros less than in 2017. Gross profit decrease in 2018 is driven by the decrease of sales revenue of business customers, particularly Germany and Eastern-European region customers. In addition, the gross profit was influenced by the decrease in Estonian retail sales, particularly in fourth quarter and men' s segment lower sales. Women' s segment gross profit increased compared with the last year and the most impacted the improvement of the result Monton' s women collection gross profit increase by 3%.

Baltika`s Strategy 2022 was based on the international growth but due to the changes in fashion industry which resulted in lower sales and the unexpectedly negative financial results of franchise partners, Management Board has formalized a new 2019 and 2020 action and financial plan. A new plan focuses on changing the business plan radically, including restructuring the brand portfolio, focusing on home markets, simplificying business processes and reducing the costs significantly. Management Board has presented the modified plan to the Supervisory Board and the 2019-2020 action and financial plan will be decided in coming weeks, after that the public will be informed. If the action plan will be approved by the Supervisory Board it might influence the Management Board`s estimates of trade receivables, inventories and fixed assets impairment which may result in one-off costs. Due to that, the financial results in the 2018 annual report disclosed on 20th of March in 2019 may change compared with the results disclosed in this report.

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

- In November, a new concept store, Vèrenni, representing all Baltika Group`s brands was opened in T1 Mall of Tallinn department store. In the new concept, the products in the store are grouped based on the customer needs, i.e according to the situation in which the clothes are needed. During the first months, the store proved to be particularly popular among men, who thought it was easier to find the clothes, which were grouped this way.
- As the complex economic and political situation in Ukraine and Belarus has caused a significant decrease in sales volumes and solvency of Baltika's franchise partners on these markets, Baltika decided to terminate franchise agreements before the end of their period of validity with Belarusian and Ukrainian partners in the first quarter of 2019. Cooperation with Russian franchise partner will continue but on a smaller scale. Consequently, Baltika evaluates the Eastern European partners' liabilities as not fully collectable and thus creates an allowance for impairment in 2018. The early termination of the agreements results in a decrease of nearly 1,000 thousand euros in Baltika`s wholesale and franchise sales revenue in 2019.
- In December, two new Monton sales points were opened in the Slovenian department stores in Ljubljana and Celjes due to the rapidly growing sales volumes of the consignment partner Montecristo SL.

REVENUE

In the fourth quarter Baltika's sales revenue was 12,281 thousand euros, decreasing 5% compared to the same period last year. By sales channels comparison, e-commerce showed positive result with 10% growth of sales, retail sales decreased 4% and business customers sales 30%.

Sales revenue by channel

EUR thousand	4Q 2018	4Q 2017	+/-	12M 2018	12M 2017	+/-
Retail sales	11,160	11,626	-4%	38,416	39,476	-3%
Business customer sales	604	859	-30%	4,353	6,300	-31%
E-com sales	472	427	10%	1,707	1,468	16%
Other	45	57	-21%	215	214	1%
Total	**12,281**	**12,969**	**-5%**	**44,691**	**47,460**	**-6%**

Stores and sales area

As at 31 December 2018, Group had 117 stores, among them 23 franchise stores. In the fourth quarter, the number of stores decreased by three – two franchise stores were closed in Ukraine, one in Russia and one in Spain and one multibrand store- Vèrenni- was opened in T1 Mall of Tallinn department store.

Stores by market

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

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

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[1]Franchise shops are with a total sales area of 4,324 m^2.

Retail

Retail revenue in the fourth quarter was 11,160 thousand euros, decreasing by 4% compared to the same period last year. Compared to previous years, this year's fourth quarter was characterised by growth of sales in, knitwear and skirts and dresses. Sales of jackets, suits and blouses continue to decline due to the change in the overall formal clothes fashion trend. In twelve months total, retail sales decreased 3% and totalled 38,416 thousand euros.

Retail sales by market

EUR thousand	4Q 2018	4Q 2017	+/-	Share	12M 2018	12M 2017	+/-	Share
Estonia	5,086	5,446	-7%	46%	18,209	19,106	-5%	47%
Lithuania	3,006	3,138	-4%	27%	10,011	10,286	-3%	26%
Latvia	3,013	3,029	-1%	27%	10,036	10,071	0%	26%
Finland	55	13	315%	0%	160	13	1107%	0%
Total	**11,160**	**11,626**	**-4%**	**100%**	**38,416**	**39,476**	**-3%**	**97%**

In the fourth quarter, the sales efficiency decreased in all markets: Lithuania -4%, Estonia and Latvia -3%. Total efficiency in retail decreased compared with the last year`s fourth quarter and twelve months -3%.

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

	4Q 2018	4Q 2017	+/-	12M 2018	12M 2017	+/-
Estonia	216	223	-3%	195	203	-4%
Lithuania	182	189	-4%	150	155	-3%
Latvia	250	258	-3%	210	214	-2%
Total	**213**	**220**	**-3%**	**184**	**190**	**-3%**

Brands

The brand with the biggest share continues to be Monton, which revenues formed 46% of retail sales in the fourth quarter. Monton's fourth quarter sales were 5,161 thousand euros, decreasing by 3% compared with the last year same period. Sales revenue decreased in women's and men`s collections and biggest decrease by product group was in accessories and jersey category. At the same time sales revenue increased in outerwear and knitwear. Mosaic`s fourth quarter revenue was 3,182 thousand euros, which is 6% less than last year, the corresponding twelve months growth is -4%. There has been a significant decrease in sales revenue in jackets and knitwear category, which reflects in fourth quarter`s and twelve months` results.

Due to the fall of overall fashion trend of formal clothing, sale of suits and jackets has decreased, which reflects also in Baltman's sales numbers – quarterly revenue decreased 9% and twelve months revenue 8%. Baltika`s smallest brand by its sales volume, Bastion, sales revenue decreased in fourth quarter 6% and in twelve months 2%. Premium brand, Ivo Nikkolo, was the only brand, which showed positive sales revenue growth in fourth quarter, respectively 2%. Increased sales of skirts, trousers and knitwear contributed to the quarterly sales growth. Ivo Nikkolo`s twelve months sales revenue was 2% lower than last year.

Retail revenue by brand

EUR thousand	4Q 2018	4Q 2017	+/-	Share	12M 2018	12M 2017	+/-	Share
Monton	5,161	5,316	-3%	46%	16,983	17,128	-1%	44%
Mosaic	3,182	3,370	-6%	29%	11,467	11,924	-4%	30%
Baltman	1,133	1,245	-9%	10%	4,173	4,514	-8%	11%
Ivo Nikkolo	1,158	1,138	2%	10%	3,895	3,988	-2%	10%
Bastion	521	555	-6%	5%	1,878	1,908	-2%	5%

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Other	5	2	163%	0%	20	14	42%	0%
Total	**11,160**	**11,626**	**-4%**	**100%**	**38,416**	**39,476**	**-3%**	**100%**

Sales in other channels

Business customers sales revenue was 604 thousand euros in the fourth quarter, decreasing 30% compared to year before. The main reason for the decline in sales revenue was the change of the cooperation agreement with department store chain in Germany and Central Europe, Peek & Cloppenburg, in this autumn, according to which Monton collections are no longer sold in most department stores in Germany. Another important reason of the decrease in sales revenue was the continued decrease in franchise sales volumes in Russia, Belarus and Ukraine. As the complex economic and political situation in Ukraine and Belarus has caused a significant decrease in sales volumes and solvency of Baltika's franchise partners on these markets, Baltika decided to terminate franchise agreements before the end of their period of validity with Belarusian and Ukrainian partners in the first quarter of 2019. Cooperation with Russian franchise partner will continue but on a smaller scale.

Due to the consignation partner Montecristo SL rapidly growing sales volumes, it was decided in the fourth quarter that Monton`s visibility in Slovenian department stores will be increased and two new sales points were opened in Ljubljana and Celjes. As of the end of December, Baltika is represented by Monton brand in five department stores in Slovenia and Croatia.

At the end of the fourth quarter, there were 23 franchise stores representing Baltika's brands, forming 20% of the total stores portfolio. Business customers revenue decreased 31% in twelve months and was 4,353 thousand euros.

Baltika Group's e-store Andmorefashion.com revenue increased 10% in the fourth quarter compared to same period last year and was 472 thousand euros. The conversion rate has improved in fourth quarter, increasing 20% compared to last year. Conversion rate improvement was the highest in Lithuania. Monton formed 37% of the quarter's e-store sales and sales revenue increased 11% compared to year before. Next largest brand Mosaic formed 25% of sales and decreased 5% in a year. In the fourth quarter, 8,237 orders were received and 16,463 products were shipped. Compared to the fourth quarter last year, in largest markets, e-store sales increased as follows: in Estonia 14%, in Latvia 11%, in Lithuania 19%. E-store sales increase was 16% and revenue totalled 1,707 thousand euros, in twelve months total.

OPERATING EXPENSES AND NET PROFIT

The company's gross profit margin in the fourth quarter was 51.9% that is lower by 3.0 percentage points than the margin in the fourth quarter of last year. Gross profit margin decreased in fourth quarter mainly due to the combination of increased purchase prices and the increase in the sales volumes of products sold at discount.

Gross profit for the quarter was 6,368 thousand euros, decreasing by 754 thousand euros compared to the same period last year (4Q 2017: 7,122 thousand euros). Twelve months in total, company's gross profit amounted to 22,316 thousand euros, that is less by 1,354 thousand euros than in comparable period in 2017.

Group's distribution expenses in the fourth quarter was 5,501 thousand euros, increasing by 76 thousand euros compared to the same period last year. Distribution expenses has increased in retail segment due to the growth of operating expenses related to rental agreements and costs related to entering Finnish market. Group's distribution expense increased 1.4% and administrative and general expenses increased 13% in the fourth quarter. Due to decreased sales, the fourth quarter's distribution and general expense ratio to revenue increased within a year by 3.8 percentage points to 50.0%. Year in total, the Group's total distribution, administrative and general expenses increased by 1.6% and amounted to 23,380 thousand euros.

Other operating expenses was 1,645 thousand euros in the fourth quarter consisting mainly of Eastern-European franchise partners allowance for impairment in amount of 1,605 thousand euros. Operating loss was 1,420 thousand euros. In same period last year, the operating profit was 1,118 thousand euros.

Net financial expense in the quarter was 149 thousand euros, which is 10 thousand euros less than in the same period last year.

The quarter resulted is a net loss of 1,472 thousand euros consisting allowance for impairment in amount of 1,605 thousand euros. Comparable period result was profit 920 thousand euros. Year in total results in a net loss of 3,141 thousand euros, 2017 result was net profit 58 thousand euros.

FINANCIAL POSITION

As at 31 December 2018, Baltika Group trade and other receivables amounted to 1,264 thousand euros, decreasing by 791 thousand euros compared to last year-end. The decrease is attributable to the allowance made for Eastern-European franchise partners receivables. Receivables in the amount of 1,605 thousand euros was assessed as uncollectible.

As at the end of the quarter, Group's inventories totalled 11,016 thousand euros, increasing by 517 thousand euros compared to last year-end. Finished goods and goods purchased for resale has increased by 713 thousand euros. At the same time the decrease was in fabrics and accessories by 160 thousand euros and also in prepayments to suppliers by 86 thousand euros.

In the fourth quarter, purchases of fixed assets were made in the amount of 281 thousand euros and deprecation was 259 thousand euros. Property, plant and equipment and intangible assets at residual value decreased by 442 thousand euros compared to last year-end and was 3,466 thousand euros.

As at 31 December 2018 the total borrowings amounted to 8,994 thousand euros, which together with the use of overdraft facility signifies an increase of 2,322 thousand euros compared to last year-end (31 December 2017: 6,672 thousand euros). The increase in borrowings is attributable to received loan in amount of 1,000 thousand euros in the third quarter and to the increase in the use of overdraft. As at 31 December 2018, convertible bonds, previously classified as long-term liabilities, are reported under short-term liabilities.

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.

The fourth quarter operating activities cash-flow was 1,573 thousand euros (4Q 2017: 3,434 thousand euros). In the fourth quarter, investments were made in the amount of 279 thousand euros. Overdraft in use increased by quarter 1,235 thousand euros, loan repayments were made in the amount of 177 thousand euros. Group's fourth quarter total cash flow was -126 thousand euros (4Q 2017: 276 thousand euros).

As at 31 December 2018 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 8,566 thousand euros, which is 2,598 thousand euros more than at the end of last year. The net debt to equity ratio was 419% as at 31 December 2018 (31 December 2017: 115%). Compared to last year end the net debt to equity ratio has deteriorated mainly due to received loan and negative financial results. Group's current ratio has fallen from 1.8 to 0.9 over 12 months (as at 31 December 2017 and as at 31 December 2018), due to classification of the convertible bonds liabilities as current.

PEOPLE

As at 31 December 2018 Baltika Group employed 975 people, which is 51 people less than at 31 December 2017 (1,026), thereof 467 (31.12.2017: 488) in the retail system, 339 (31.12.2017: 363) in manufacturing and 169 (31.12.2017: 175) at the head office and logistics centre.

Baltika Group employees' remuneration expense in twelve months amounted to 14,219 thousand euros (12 months 2017: 14,013 thousand euros). The remuneration expense of the members of the Supervisory Board and Management Board totalled 251 thousand euros (12 months 2017: 275 thousand euros).

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KEY FIGURES OF THE GROUP (IV QUARTER AND 12 MONTHS 2018)

	Q4 2018	Q4 2017	Q4 2016	Q4 2015[1]	Q4 2015	Q4 2014
Revenue (EUR thousand)	12,281	12,969	12,704	13,505	14,643	15,807
Retail sales (EUR thousand)	11,160	11,626	11,413	12,413	13,551	14,056
Share of retail sales in revenue	90.9%	89.6%	89.8%	91.9%	92.5%	88.9%
Gross margin	51.9%	54.9%	51.8%	48.0%	48.8%	50.2%
EBITDA (EUR thousand)*	-1,151	1,418	1,123	864	-3,049	1,001
Net profit (EUR thousand)	-1,472	920	620	333	-4,641	420
EBITDA margin*	-9.4%	14.5%	8.8%	6.4%	-20.8%	6.3%
Operating margin	-11.6%	8.6%	6.3%	3.9%	-29.4%	4.3%
EBT margin	-12.8%	7.4%	4.9%	2.8%	-30.4%	3.3%
Net margin	-12.0%	7.1%	4.9%	2.5%	-31.7%	2.7%

Sales activity key figures	12M and 31 Dec 2018	12M and 31 Dec 2017	12M and 31 Dec 2016	12M and 31 Dec 2015[1]	12M and 31 Dec 2015	12M and 31 Dec 2014
Revenue (EUR thousand)	44,691	47,459	46,993	48,806	53,298	57,127
Retail sales (EUR thousand)	38,416	39,476	39,678	42,73	47,222	51,424
Share of retail sales in revenue	86.0%	83.2%	84.4%	87.6%	88.6%	90.0%
Share of exports in revenue	9.7%	56.1%	56.4%	56.6%	60.2%	65.2%
Number of stores in retail	94	95	95	95	105	105
Number of stores	117	128	128	123	133	128
Sales area at the end of period (sqm)	17,758	17,741	17,161	17,046	19,883	20,232
Number of employees (end of period)	975	1,018	1,049	1,095	1,174	1,228
Gross margin	49.9%	49.9%	50.0%	47.3%	47.7%	50.8%
EBITDA (EUR thousand)*	-1,609	1,875	2,004	944	-3,425	567
Net profit (EUR thousand)	-3,141	58	177	-844	-6,359	-1,263
EBITDA margin*	-3.6%	4.0%	4.3%	1.9%	-6.4%	1.0%
Operating margin	-6.0%	1.3%	1.5%	-0.6%	-10.6%	-1.2%
EBT margin	-7.2%	0.2%	0.4%	-1.6%	-11.6%	-2.0%
Net margin	-7.0%	0.1%	0.4%	-1.7%	-11.9%	-2.2%
Inventory turnover	2.07	2.15	2.17	2.16	2.21	2.09

Other ratios[2]	12M and 31 Dec 2017	12M and 31 Dec 2017	12M and 31 Dec 2016	12M and 31 Dec 2015[1]	12M and 31 Dec 2015	12M and 31 Dec 2014
Current ratio	0.9	1.8	1.1	1.3	1.3	1.6
Net gearing ratio	419.0%	115.1%	133.2%	123.2%	123.2%	74.9%
Return on equity	-81.1%	1.3%	3.8%	-92.8%	-92.8%	-13.4%
Return on assets	-17.1%	0.3%	0.9%	-28.1%	-28.1%	-5.4%

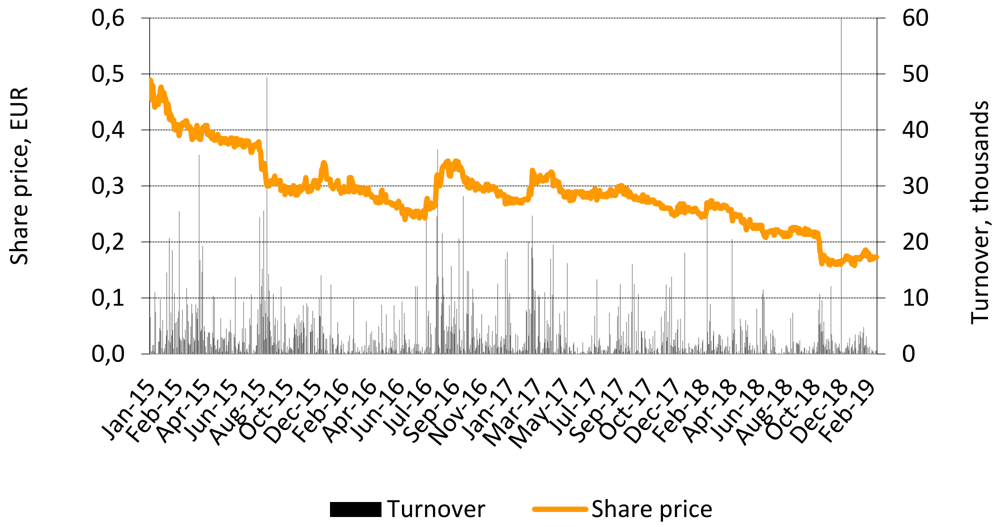
*contains of non-recurring operating expenses (1,605 thousand euro), which is related to Eastern-European franchise partners allowance for impairment

[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
28 February 2019

Maigi Pärnik-Pernik
Member of the Management Board
28 February 2019

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 fourth quarter and 12 months of 2018 as presented on pages 12-31.

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
28 February 2019

Maigi Pärnik-Pernik
Member of the Management Board
28 February 2019

Baltika Group Consolidated interim report for the IV quarter and 12 months of 2018 (in thousands euros, unaudited)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Current assets			
Cash and cash equivalents	3	428	704
Trade and other receivables	4	1,264	2,055
Inventories	5	11,016	10,499
Total current assets		**12,708**	**13,258**
Non-current assets			
Deferred income tax asset		286	189
Other non-current assets	4	513	487
Property, plant and equipment	6	1,986	2,395
Intangible assets	7	1,480	1,513
Total non-current assets		**4,265**	**4,584**
TOTAL ASSETS		**16,973**	**17,842**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	8	7,829	1,309
Trade and other payables	9,10	5,934	5,984
Total current liabilities		**13,763**	**7,293**
Non-current liabilities			
Borrowings	8	1,165	5,363
Total non-current liabilities		**1,165**	**5,363**
TOTAL LIABILITIES		**14,928**	**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		-3,141	58
TOTAL EQUITY		**2,045**	**5,186**
TOTAL LIABILITIES AND EQUITY		**16,973**	**17,842**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

	Note	4Q 2018	4Q 2017	2018	2017
Revenue	12,13	12,281	12,969	44,691	47,459
Client bonus provision	10,13	0	16	0	16
Revenue after client bonus provision		12,281	12,985	44,691	47,475
Cost of goods sold	14	-5,913	-5,863	-22,375	-23,805
Gross profit		**6,368**	**7,122**	**22,316**	**23,670**
Distribution costs	15	-5,501	-5,425	-21,005	-20,630
Administrative and general expenses	16	-642	-567	-2,375	-2,387
Other operating income (-expense)	17	-1,645	-12	-1,621	-35
Operating profit (loss)		**-1,420**	**1,118**	**-2,685**	**618**
Finance costs	18	-149	-159	-553	-521
Profit (loss) before income tax		**-1,569**	**959**	**-3,238**	**97**
Income tax expense		97	-39	97	0
Net profit (loss) for the period		**-1,472**	**920**	**-3,141**	**58**
Total comprehensive income (loss) for the period		**-1,472**	**920**	**-3,141**	**58**
Basic earnings per share from net loss for the period, EUR	19	-0.04	0.02	-0.08	0.00
Diluted earnings per share from net loss for the period, EUR	19	-0.04	0.02	-0.08	0.00

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CONSOLIDATED CASH FLOW STATEMENT

	Note	4Q 2018	4Q 2017	2018	2017
Cash flows from operating activities					
Operating profit (loss)		-1,420	1,118	-2,685	618
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	14-16	259	289	1,066	1,230
Gain (loss) from sale, impairment of PPE, non-current assets, net		4	11	8	27
Other non-monetary adjustments		1,637	128	1,637	166
Changes in working capital:					
Change in trade and other receivables	4	667	1,367	-872	-64
Change in inventories	5	235	217	-517	597
Change in trade and other payables	9	245	374	-50	-633
Interest paid and other financial expense		-54	-70	-198	-267
Net cash generated from operating activities		**1,573**	**3,434**	**-1,611**	**1,674**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-279	-129	-635	-420
Proceeds from disposal of PPE		5	0	5	7
Net cash used in investing activities		**-274**	**-129**	**-630**	**-413**
Cash flows from financing activities					
Received borrowings	8	0	0	1,000	500
Repayments of borrowings	8	-177	-288	-632	-1,120
Change in bank overdraft	8	-1,235	-2,690	1,697	-983
Repayments of finance lease		-13	-51	-100	-201
Repayments of borrowings	11	0	0	0	-35
Redemption of share options		0	0	0	863
Net cash generated from (used in) financing activities		**-1,425**	**-3,029**	**1,965**	**-976**
Total cash flows		**-126**	**276**	**-276**	**285**
Cash and cash equivalents at the beginning of the period	3	**554**	**428**	**704**	**419**
Cash and cash equivalents at the end of the period	3	**428**	**704**	**428**	**704**
Change in cash and cash equivalents		**-126**	**276**	**-276**	**285**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance as at 31 Dec 2016	**8,159**	**496**	**1,182**	**-4,872**	**4,965**
Loss for the period	0	0	0	58	58
Total comprehensive income	**0**	**0**	**0**	**58**	**58**
Value of conversion feature on convertible notes	0	0	163	0	**163**
Balance as at 31 Dec 2017	**8,159**	**496**	**1,345**	**-4,814**	**5,186**
Loss for the period	0	0	0	-3,141	-3,141
Total comprehensive loss	**0**	**0**	**0**	**-3,141**	**-3,141**
Reduction of the nominal value of the share	-4,080	-496	-238	4,814	**0**
Balance as at 31 Dec 2018	**4,079**	**0**	**1,107**	**-3,141**	**2,045**

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. Shareholders holding more than 20% of shares (Note 11) of AS Baltika, are KJK Fund Sicav-SIF (on ING Luxembourg S.A. account) and Clearstream Banking Luxembourg S.A clients.

The Group's condensed consolidated interim report for the fourth quarter ended 31 December 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 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	2018	2017
USD (US dollar)	4.54%	2.06%

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

Balance-sheet date rates (30.09.2018; 31.12.2017)	
USD (US dollar)	-3.53%

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 1,165 thousand euros at 31 December 2018 and 953 thousand euros at 31 December 2017 were subject to a floating 6 month interest rate based on Euribor. The remaining non-current borrowings in the amount of 4,445 thousand euros (at nominal value) at 31 December 2017 were subject to a fixed interest rate. The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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

Price risk

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

Credit risk

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

Cash and cash equivalents

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

Trade receivables

As at 31 December 2018 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 4) amounted to 1,021 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 with retail clients, except the risk arising from banks and 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.

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To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, issuance of additional shares and monitors the terms of receivables and purchase contracts. The unused limit of the Group´s overdraft facilities as at 31 December 2018 was 1,666 thousand euros (31 December 2017: 3,363 thousand euros).

Financial liabilities by maturity at 31 December 2018

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (Note 8)[2]	4,153	3,165	1,158	4,323
Finance lease liabilities (Note 8)	78	38	48	86
Convertible bonds (Note 8)	4,763	4,994	0	4,994
Trade payables (Note 9)	3,065	3,065	0	3,065
Other financial liabilities	22	22	0	22
Total	**12,081**	**11,284**	**1,206**	**12,490**

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.

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

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

Capital management

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

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

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

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

At the end of the reporting period the ratio was 419%. In the end of 2017 the ratio was 115%. The deterioration of the ratio compared to the year end is influenced by worsened financial results, increased borrowings and extraordinary expenses. The Group also monitors other ratios e.g. net debt to EBITDA and net debt to share capital. In 2018, ratios of financial state were not acceptable and Management Board has formalized further steps to improve the situation and presented them to the Council of AS Baltika for approval. Decisions will be made in coming weeks.

Net gearing ratio

	31 Dec 2018	31 Dec 2017
Interest carrying borrowings (Note 8)	8,994	6,672
Cash and bank (Note 3)	-428	-704
Net debt	8,566	5,968
Total equity	2,045	5,186
Net gearing ratio	**419%**	**115%**

Fair value

The Group estimates that the fair values of the financial assets and liabilities denominated in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 December 2018 and 31 December 2017.

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

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

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NOTE 3 Cash and cash equivalents

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

All cash and cash equivalents are denominated in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables	31 Dec 2018	31 Dec 2017
Trade receivables, net	795	1,628
Other prepaid expenses	205	181
Tax prepayments and tax reclaims, thereof	234	198
Value added tax	234	198
Other current receivables	30	48
Total	**1,264**	**2,055**

Long-term assets		
Non-current lease prepayments	287	276
Other long-term receivables	226	211
Total	**513**	**487**

All trade and other receivables are in euros.

In fourth quarter, trade receivables from Eastern-European franchise partners in the amount of 1,605 thousand euros were assessed as uncollectible. Expense related to allowance was recognised in statement of profit and loss on line “Other operating income (-expense)”.

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

31 Dec 2018	Baltic region	Eastern European region	Other regions	Total
Not due	296	474	-9	761
Up to 1 month past due	4	0	13	17
1-3 months past due	8	0	7	15
3-6 months past due	0	0	0	0
Over 6 months past due	1	0	1	2
Total	**309**	**474**	**12**	**795**

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

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Total	**200**	**1,264**	**164**	**1,628**

NOTE 5 Inventories

	31 Dec 2018	31 Dec 2017
Fabrics and accessories	1,754	1,914
Work-in-progress	107	97
Finished goods and goods purchased for resale	8,887	8,174
Allowance for impairment of finished goods and goods purchased for resale	-170	-210
Prepayments to suppliers	438	524
Total	**11,016**	**10,499**

NOTE 6 Property, plant and equipment,

	Buildings and structures	Machinery and equipment	Other fixtures	Total
31.12.2016				
Acquisition cost	**2,838**	**4,718**	**4,813**	**12,369**
Accumulated depreciation	-1,746	-4,310	-3,291	-9,347
Net book amount	**1,092**	**408**	**1,522**	**3,022**
Additions	176	83	238	497
Disposals	-17	-1	-50	-68
Depreciation	-390	-119	-547	-1,056
31.12.2017				
Acquisition cost	2,925	4,743	4,878	12,546
Accumulated depreciation	-2,064	-4,372	-3,715	-10,151
Net book amount	**861**	**371**	**1,163**	**2,395**
Additions	256	6	313	575
Disposals	-10	0	-3	-13
Depreciation	-360	-120	-491	-971
30.09.2018				
Acquisition cost	2,988	4,634	4,909	12,531
Accumulated depreciation	-2,241	-4,377	-3,927	-10,545
Net book amount	**747**	**257**	**982**	**1,986**

NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Goodwill	Total
31.12.2016				
Acquisition cost	**2,092**	**1,243**	**509**	**3,844**
Accumulated depreciation	-1,787	-381	0	-2,168
Net book amount	**305**	**862**	**509**	**1,676**
Additions	16	0	0	16
Amortisation	-135	-44	0	-179
31.12.2017				

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Acquisition cost	**2,107**	**1,243**	**509**	**3,859**
Accumulated depreciation	-1,921	-425	0	-2,346
Net book amount	**186**	**818**	**509**	**1,513**
Additions	62	0	0	**62**
Amortisation	-51	-44	0	**-95**
31.12.2018				
Acquisition cost	**2,092**	**1,243**	**509**	**3,844**
Accumulated depreciation	-1,895	-469	0	-2,364
Net book amount	**197**	**774**	**509**	**1,480**

NOTE 8 Borrowings

	31 Dec 2018	31 Dec 2017
Current borrowings		
Current portion of bank loans	697	575
Overdraft	2,334	637
Current portion of finance lease liabilities	35	97
Share options (Note 11)	4,763	0
Total	**7,829**	**1,309**
Non-current borrowings		
Non-current bank loans	1,122	875
Non-current finance lease liabilities	43	78
Convertible bonds, share options (Note 11)	0	4,410
Total	**1,165**	**5,363**
Total borrowings	**8,994**	**6,672**

During the reporting period, the Group made loan repayments in the amount of 632 thousand euros (2017: 1,120 thousand euros). Group´s overdraft facilities with the banks were used in the amount of 2,334 thousand euros as at 31 December 2018 (31 December 2017: 637 thousand euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 553 thousand euros, including 221 thousand euros interest expense from the convertible bonds of related party (2017: 499 thousand euros, including 189 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 December the repayment date of the overdraft agreement (in the amount of 1,000 thousand euros) was extended until July 2019.

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

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

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia or 6-month Euribor)	EURIBOR +3,7% or EONIA +3,8%	4,231
K-Bonds (Note 11)	6.00%	4,445
Total		**8,676**

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

	31 Dec 2018	31 Dec 2017
Current liabilities		
Trade payables	3,065	2,994
Tax liabilities, thereof	1,437	1,465
Personal income tax	148	189
Social security taxes and unemployment insurance premium	552	527
Value added tax	702	716
Corporate income tax liability	0	0
Other taxes	35	33
Payables to employees[1]	980	1,010
Other current payables[2]	22	22
Other accrued expenses	5	36
Customer prepayments	94	126
Total	**5,603**	**5,653**

[1]Payables to employees consist of accrued wages, salaries and vacation reserve.
[2]Information about the liabilities to related parties is in Note 20.

Trade payables and other accrues expenses in denominated currency

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

NOTE 10 Provisions

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

Short description of the provision

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

Assumptions used

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

NOTE 11 Equity

Share capital and reserves

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

As at 31 December 2018, under the Articles of Association, the company’s minimum share capital is 4,000 thousand euros and the maximum share capital is 16,000 thousand euros. As at 31 December 2017, under the Articles of Association, the company’s minimum share capital was 5,000 thousand euros and the maximum share capital is 20,000 thousand euros. As at 31 December 2018 and 31 December 2017 all shares have been paid for. As at 31 December 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 31 Dec 2018	Number of convertible bonds 31 Dec 2017
K-Bond	16 August 2017	15 July 2019 - 18 August 2019	889	889

- K-bonds

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

Bonds were partly issued to a related party (720 bonds in the amount of 3,600 thousand euros, Note 20).

- 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

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Management Board members and vest three years after signing the option agreement if the Baltika share price increase conditions are fulfilled.

Shareholders as at 31 December 2018

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

Shareholders as at 31 December 2017

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

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

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

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

Description of segments and principal activities:

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

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

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

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

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

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

	Retail	All other segments[1]	Total
4 Q 2018			
Revenue (from external customers)	11,160	1,121	12,281
Segment profit (loss)[2]	2,345	167	2,512
Incl. depreciation and amortisation	-218	0	-218
4 Q 2017			
Revenue (from external customers)	11,626	1,343	12,969
Segment profit (loss)[2]	2,959	263	3,222
Incl. depreciation and amortisation	-231	0	-231
12M 2018 and as at 31 Dec 2018			
Revenue (from external customers)	38,416	6,275	44,691
Segment profit (loss)[2]	5,416	1,155	6,571
Incl. depreciation and amortisation	-865	-1	-866
Inventories of segments	4,273	0	4,273
12M 2017 and as at 31 Dec 2017			
Revenue (from external customers)	39,476	7,983	47,459
Segment profit (loss)[2]	6,401	1,615	8,016
Incl. depreciation and amortisation	-931	-48	-979
Inventories of segments	3,902	0	3,902

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

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Reconciliation of segment profit to consolidated operating profit

	4 Q 2018	4 Q 2017	2018	2017
Total segment profit	2,512	3,222	6,571	8,016
Unallocated expenses[1]:				
Costs of goods sold and distribution costs	-1,645	-1,525	-5,260	-4,976
Administrative and general expenses	-642	-567	-2,375	-2,387
Other operating income (expenses), net	-1,645	-12	-1,621	-35
Operating profit (loss)	**-1,420**	**1,118**	**-2,685**	**618**

[1]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

	31 Dec 2018	31 Dec 2017
Total inventories of segments	4,273	3,902
Inventories in Parent company and production company	6,743	6,597
Inventories on statement of financial position	**11,016**	**10,499**

NOTE 13 Revenue

	4 Q 2018	4 Q 2017	2018	2017
Sale of goods in retail channel	11,160	11,626	38,416	39,476
Sale of goods to business partners	604	857	4,353	6,300
Sale of goods in e-commerce channel	472	427	1,707	1,468
Other sales	45	59	215	215
Total	**12,281**	**12,969**	**44,691**	**47,459**

Sales by geographical (client location) areas

	4 Q 2018	4 Q 2017	2018	2017
Estonia	5,510	6,068	20,054	21,154
Latvia	3,115	3,148	10,486	10,605
Lithuania	3,093	3,207	10,299	10,541
Russia	180	204	1,506	1,785
Ukraine	147	89	758	1,009
Austria	72	58	422	401
Finland	76	46	378	244
Germany	2	67	220	690
Belarus	53	29	162	235
Serbia	19	31	130	384
Spain	4	0	79	301
Other countries	10	22	197	110
Total	**12,281**	**12,969**	**44,691**	**47,459**

NOTE 14 Cost of goods sold

	4 Q 2018	4 Q 2017	2018	2017
Materials and supplies	4,619	4,447	17,751	19,158
Payroll costs in production	834	907	3,525	3,609
Operating lease expenses	175	174	688	687
Other production costs	98	105	380	399

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Depreciation of assets used in production (Note 6,7)	17	20	71	82
Changes in inventories	170	210	-40	-130
Total	**5,913**	**5,863**	**22,375**	**23,805**

NOTE 15 Distribution costs

	4 Q 2018	4 Q 2017	2018	2017
Payroll costs	2,481	2,419	9,494	9,216
Operating lease expenses	1,755	1,673	6,845	6,548
Advertising expenses	368	395	1,274	1,363
Depreciation and amortisation (Note 6,7)	235	258	965	1,083
Fuel, heating and electricity costs	119	122	464	475
Municipal services and security expenses	111	95	389	344
Fees for card payments	60	68	216	235
Information technology expenses	97	51	239	183
Travel expenses	35	26	156	152
Consultation and management fees	25	45	126	136
Communication expenses	24	25	96	99
Other sales expenses[1]	191	248	741	796
Total	**5,501**	**5,425**	**21,005**	**20,630**

[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

	4 Q 2018	4 Q 2017	2018	2017
Payroll costs	311	275	1,200	1,188
Operating lease expenses	119	98	444	419
Information technology expenses	50	48	209	194
Bank fees	29	31	111	136
Management, juridical-, auditor´s and other consulting fees	46	30	98	82
Fuel, heating and electricity expenses	18	16	64	64
Depreciation and amortisation (Note 6,7)	7	11	30	65
Other administrative expenses[1]	62	58	219	239
Total	**642**	**567**	**2,375**	**2,387**

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

NOTE 17 Other operating income and expenses

	4 Q 2018	4 Q 2017	2018	2017
Gain (loss) from sale, impairment of PPE	-9	-11	-8	-27
Other operating income	16	1	61	84
Foreign exchange gain (-loss)	-11	-14	-22	-97
Other operating expenses[1]	-1,641	12	-1,652	5
Total	**-1,645**	**-12**	**-1,621**	**-35**

[1]In 2018, other operating expenses includes extraordinary expenses related to the allowance made for receivables from Eastern-European franchise partners in amount of 1,605 thousand euros.

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NOTE 18 Finance costs

	4 Q 2018	4 Q 2017	2018	2017
Interest cost	-149	-137	-553	-499
Other finance costs	0	-22	0	-22
Total	**-149**	**-159**	**-553**	**-521**

NOTE 19 Earnings per share

		4 Q 2018	4 Q 2017	2018	2017
Weighted average number of shares (thousand)	pcs	40,795	40,795	40,795	40,795
Net loss from continuing operations		-1,472	920	-3,141	58
Basic earnings per share	**EUR**	**-0.04**	**0.02**	**-0.08**	**0.00**
Diluted earnings per share	**EUR**	**-0.04**	**0.02**	**-0.08**	**0.00**

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 0.22 euros (2017: 0.28 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

	4 Q 2018 Purchases	4 Q 2017 Purchases	12M 2018 Purchases	12M 2017 Purchases
Services	6	6	24	24
Total	**6**	**6**	**24**	**24**

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

Balances with related parties

	31 Dec 2018	31 Dec 2017
Other current loans and interests (Note 8, 9)	3,902	3,681
Payables to related parties total	**3,902**	**3,681**

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

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

Compensation for the members of the Management Board and Supervisory Board

	4 Q 2018	4 Q 2017	12M 2018	12M 2017
Salaries of the members of the Management Board	61	66	237	261
Remuneration of the members of the Supervisory Council	3	3	14	14
Total	**64**	**69**	**251**	**275**

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

Changes in the Management Board in 2018

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

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 31 December 2018: 0

TIINA MÕIS
Member of the Supervisory Board since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Board of AS LHV Pank and AS LHV Group,
Member of the Supervisory Board of Rocca al Mare Kool
Baltika shares held on 31 December 2018: 977,837 shares (on AS Genteel account)

REET SAKS
Member of the Supervisory Board since 25.03.1997
Attorney at Raidla Ellex Law Office
Degree in Law, University of Tartu
Other assignments
Member of the Management board of Non-profit organization AIPPI Estonian workgroup
Baltika shares held on 31 December 2018: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Board since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
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 31 December 2018: 24 590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Board since 20.04.2012
Chairman of the Board of Port of Tallinn
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Member of the Management Board of OÜ VK CO
Baltika shares held on 31 December 2018: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31 December 2018: 1,000,346 shares

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