AS BALTIKA

CONVERTIBLE BOND OFFERING PROSPECTUS

Tallinn, 10 July 2017

This Convertible Bond Offering Prospectus (the "Prospectus") has been prepared in connection with the public offering (the "Offering") of convertible bonds of Aktsiaselts BALTIKA (the "Issuer", "Company", "Parent company" or "Baltika", together with its subsidiaries, the "Group" or "Baltika Group"), registry code 10144415, address at Veerenni 24, Tallinn, Estonia – a public limited liability company incorporated in Estonia.

Baltika is publicly offering 900 convertible K-bonds (the "Bonds") for sale to investors with the issue of Bonds with the issuance price of 5,000 euros per bond. The Offering is made to the Company's shareholders and to the public (the "Investors").

The Company's shareholders who are fixed in the share ledger on 14 July 2017 at 08:00 (Estonian time, GMT+3) shall be granted the pre-emptive right to subscribe the Bonds.

Investing in the Bonds involves risks. This Prospectus has been prepared to present a fair overview of the Bonds and Offering. However, the value may be affected by circumstances not reflected in this Prospectus. Please see section "Risk Factors" below.

This Prospectus has been prepared by the Company in connection with the public offering of the Bonds in accordance with the Securities Market Act and the decree of Minister of Finance No 4 – The conditions for public offering, trading and listing prospectus, on 9 January 2006. This Prospectus has been approved as such under the registration number 4.3-4.1/2383 by the Estonian Financial Supervisory Authority (Finantsinspektsioon) in its capacity as the competent authority in the Republic of Estonia. Registration of the Prospectus in Estonian Financial Authority does not mean that the Estonian Financial Authority has controlled the correctness of the information presented in this Prospectus.

The information contained in this Prospectus has been provided by the Company and other sources identified herein. You may not use this Prospectus for any other purpose than for making the decision to participate in the Offering or not to participate in the Offering.

RESPONSIBLE PERSONS

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, having taken reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Tallinn, 10 July 2017

Management Board of Baltika

Meelis Milder
Chairman of the Management Board

Maigi Pärnik-Pernik
Member of the Management Board

Ingrid Kormik
Member of the Management Board

LEGAL NOTICE TO SUBSCRIBER

This Prospectus will be governed by and construed in accordance with Estonian laws. Any disputes relating to the Prospectus will be settled in a competent court of law, having its jurisdiction in Estonia.

No person has been authorised to give any information or to make any representation in connection with the Offering other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Company. This Prospectus does not constitute an offer to sell, or a solicitation of an offer, subscribe or to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

The distribution of this Prospectus and the offering or sale of the Bonds in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Company to acquaint them with the law and to observe such restrictions. Neither the delivery nor distribution of this Prospectus nor the offering, sale or delivery of the Bonds shall in any circumstances constitute a representation or create any implication that there has been no change, or any event reasonably likely to involve any change, in the condition (financial or otherwise) or affairs of the Company since the date of this Prospectus. The Company will update any information presented in this Prospectus in accordance with the applicable provisions of the Estonian Securities Market Act.

Each prospective purchaser of Bonds must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells the Bonds or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and the Company shall bear no responsibility for these obligations.

The contents of this Prospectus are not construed as legal, business or tax advice. Prospective investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

Any new significant circumstances, mistakes or inaccuracies relating to the information included in this Prospectus which is capable of affecting the assessment of the Bonds and which become known between the time when this Prospectus is approved and the end of Offer Period shall be immediately stated by the Company through announcement on NASDAQ OMX Tallinn.

Any new significant circumstances, mistakes or inaccuracies relating to the information included in the prospectus which is capable of affecting the assessment of the Bonds and which become known after the registration of the Prospectus but before the final closing of the offer to the public, shall be stated in a supplement to the Prospectus. If necessary, the prospectus summary and its translations shall also be supplemented.

If a supplement to a Prospectus is made public during the period of the offer, the Company is required to:

1) cancel the subscription at the request of the subscriber and return all that has been received;
2) repurchase the Bonds with the purchase price paid to the Investors who require repurchase.

AVAILABLE INFORMATION

This Prospectus has been published in an electronic form on the website of the Estonian Financial Supervision Authority (www.fi.ee).

The Articles of Association of the Company, the annual reports, including audited consolidated financial statements, of the Company for the financial years ended 31 December 2016 are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are forward-looking. Such forward-looking statements and information are assumptions based on information available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "plan" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, risks or uncertainties associated with the Company's technological development, growth management, relations with customers and suppliers and more generally, general economic and business conditions, changes in domestic and foreign laws and regulations (including those of the European Union), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail under section "Risk Factors".

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected.

The Company does not intend, and does not assume any obligation, to update the forward-looking statements included in this Prospectus as at the date set forth on the cover.

PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for the year ended 31 December 2016 (the **''Consolidated Annual Financial Statements''**) are incorporated into this Prospectus by reference. The Consolidated Financial Statements have been prepared in accordance with the IFRS as adopted by the European Union ("IFRS"). The Consolidated Annual Financial Statements were audited by AS PricewaterhouseCoopers with its registered office in Tallinn (See Section 9 *"Independent Auditors"*). These are incorporated hereto by reference (please see Section 10 Information incorporate by reference).

The unaudited consolidated interim financial statements of the Group for the three months ended 31 March 2017 (the **''Consolidated Interim Financial Statements''**, and together with the Consolidated Annual Financial Statements, the '**'Consolidated Financial Statements'**'), prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") are incorporated into this Prospectus by reference. All consolidated financial statements are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com). These are incorporated hereto by reference (please see Section 10 Information incorporate by reference).

The Company is going to publish the unaudited consolidated interim financial results of Q2 of 2017 on 20 July 2017 through NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

Certain financial information presented in this Prospectus has been obtained directly from the Consolidated Financial Statements of the Group, while certain other financial information presented herein has been recomputed by the Management from amounts contained in the Consolidated Financial Statements. Please note that ratios and indicators set forth herein have not been audited.

Certain financial and other information set forth in a number of tables in this Prospectus has been rounded off, for the convenience of readers. Accordingly, in certain instances, the sum of the numbers in a column may not conform exactly to the total figure given.

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1 SUMMARY

This summary should be read as an introduction to the prospectus and any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the Estonian legislation have to bear the costs of translating the prospectus before the legal proceedings are initiated. No civil liability shall attach to any person solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus.

Overview

Baltika is established and operating pursuant to the laws and regulations of the Republic of Estonia. The Company is registered at Harju County Court registration department under the registry code 10144415. Please see the company's website www.baltikagroup.com for more information.

The Company was established on 1 August 1991 and registered with the enterprise register held by the local municipality. After the enforcement of the Estonian Commercial Code, Baltika was registered at Harju County Court registration department on 9 May 1997. The legal address of the Company is Veerenni 24, Tallinn 10135, Estonia and the phone number is +372 630 2731.

Baltika's shares are listed on the NASDAQ OMX Tallinn Stock Exchange. The listing dates are the following: 5 June 1997 (Main list), 7 May 1998 (Secondary list) and 17 February 2003 (Main list).

Entities in Group as at 10.07.2017

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

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

Baltika Group is an international fashion retailer operating in the Baltic countries and Eastern Europe. Baltika Group operates five retail concepts: Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo. The Group employs a vertically integrated business model, which means that it controls all stages of the fashion industry process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The Group also sells its collections through wholesale.

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

Reasons for the offering

The purpose of the Offering is to refinance bonds issued in 2014 and to support the operations of the Group through improved liquidity and investment. In 2014 AS Baltika issued convertible bonds in the amount of 3,000 thousand euros with subscription price 0.5 euros. The share subscription period is in July 2017. In case the Investors do not subscribe for the shares AS Baltika will repay the bonds together with accrued interest, in total up to 3,624 thousand euros.

The Offering and the related conditional share capital increase was approved by the Company's Annual General Meeting of Shareholders on 08 May 2017. The decision of the Annual General Meeting of Shareholders has been published on the NASDAQ OMX Tallinn and on the Company's website on 08 May 2017. The terms and conditions of issue of convertible bonds (K-Bonds) have been published on the NASDAQ OMX Tallinn and on the Company's website on 12 April 2017.

Bonds Offering

The Offering comprises of 900 Bonds with issuance price of 5,000 euros, which are being offered to the Company's shareholders and to the public in Estonia with the issue of convertible bonds. Also, investors outside Estonia may participate provided that they act in accordance with the laws of their jurisdiction. The Offering shall take place in Estonia.

The Company's shareholders fixed in the share register on 14 July 2017 at 08:00 (Estonian time, GMT+3) shall be granted the pre-emptive right to subscribe for the Bonds. Offer period starts from 14 July 2017 at 10:00 (Estonian time, GMT+3) and terminates at 14:00 (Estonian time, GMT+3) on 16 August 2017 (the "Offer Period").

The shareholders have a pre-emptive right to subscribe for the Bonds in proportion to the sum of the nominal value of the shareholder's shares.

Therefore shareholders will be entitled to a preferential allocation of Bonds (the "Preferential Allocation") in the Offering before other investors. The Bonds that have not been allocated in the course of the Preferential Allocation (i.e. Remaining Bonds) will be divided pro rata among existing shareholders and other investors who subscribed for bonds without pre-emptive rights based on the subscribed amounts in their subscription application.

Pursuant to law, if it becomes evident that Bonds are subscribed for in excess of the planned issuance, the Supervisory Board has the right to decide on the distribution of Bonds based on the number of subscriptions of Bonds and on the cancellation of oversubscribed Bonds.

The Offering is not guaranteed by any person in the meaning of the Securities Market Act. However, KJK Fund, Sicav-SIF, the largest shareholder of AS Baltika, has signed the obligation to subscribe Bonds in the amount of up to 3,600 thousand euros and will participate in the Offering as all other Investors.

The main purposeof the K-Bonds issuance is to refinance J-Bonds (issued in 2014). One of the J-Bond holders – KJK Fund, Sicav-SIF has let the Company know that they do not want to subscribe shares under J-Bonds, thus the Company has an obligation to return the amounts paid for the J-Bonds together with accrued interest to KJK Fund Sicav-Sif on 31st of August 2017 at the latest. The Company and KJK Fund Sicav-Sif can offset the amounts payable for J-Bonds and the amounts receivable for K-Bonds. With the settlement KJK Fund Sicav-Sif has offset the payment obligation for K-Bonds in the amount of the settlement. If other J-Bond owners do not want to subscribe shares under J-Bonds and would like to subscribe K-Bonds instead, the Company has a right to settle the J-Bond repayment with accrued interests in the amount that equals the K-Bonds subscribed by such a J-Bond owner. All J-Bonds holding Investors, who would like to subscribe for K-Bonds and would like to offset those with J-Bonds have to submit the application to exchange Baltika AS J-series convertible bonds at the latest on 26th of July 2017 at 14:00 on

Estonian time. The Exchange Application is made public together with Prospectus and is also available for download on www.baltikagroup.com.

The Management Board has nominated AS LHV Pank to act as an Agent and to collect and accept the Subscription Applications, to collect payments and after the allocation of Bonds return funds to Investors to whom Bonds were allocated less than subscribed for. AS LHV Pank will also act as an Agent at Bond maturity and return the funds should the investor decide not to convert the Bonds into Shares.

An investor wishing to submit a Subscription Application should send the filled and signed document to the Agent. Paper form Subscription Applications should be sent to AS LHV Pank Tartu mnt 2, Tallinn. Digitally signed applications should be sent to markimine@lhv.ee. The Subscription Application is made public together with the Prospectus and is also available for download on www.baltikagroup.com.

An investor shall make the payment to the Agent account EE397700777000310434 by no later than on 16 August 2017 at 16:00 (Estonian time, GMT+3). The transaction amount to be transferred will be equal to the Offer Price multiplied by the maximum number of Bonds subscribed. In a case where Investor who is also holding J-Bonds would like to settle these with K-Bonds, the transaction amount to be transferred will be equal to the Offer Price multiplied by the maximum number of Bonds subscribed minus the settlement amount (up to in a total amount of J-Bonds owned by Investor together with accrued interest).

If the allocation deviates from the amount of Bonds applied for, the funds transferred to Agent account, or the part thereof (the amount in excess of payment for the allocated Bonds) shall be returned by the Agent within three banking days after the allocation is announced.

The publication of results of Offering will be on 17 August 2017.

However, if it becomes evident that the total number of Bonds subscribed for are less than the planned issuance, the Company shall not cancel the Offering in its entirety. In case the Bonds are not subscribed for in total amount during the Offer Period, the Management Board shall prolong the subscription period or the undersubscribed Bonds shall be cancelled. The prolongation of the Offer Period together with the new payment date will be announced immediately through the NASDAQ OMX Tallinn company announcement facility. All terms of Offering remain unchanged but the dates would be changed according to the time of new issuance. Provided that KJK Fund, Sicav-SIF shall subscribe for Bonds in the amount of up to 3,600,000 euros according to their obligations there can be under-subscription in the amount of 900,000 euros the most. Bonds shall be registered with the Estonian Central Registry of Securities *(Eesti Väärtpaberite Keskregister)*. The respective application shall be made within three (3) business days to the Estonian Central Registry of Securities from the Bonds Issue Date.

Key dates

The following are indicative key dates related to the Offering.

08 May 2017	The Annual General Meeting decides the issuance of Bonds
14 July 2017 at 08:00 (Estonian time, GMT+3)	The list of shareholders is fixed for the use of pre-emptive right to subscribe for the Bonds
14 July 2017 at 10:00 (Estonian time, GMT+3)	Offer period commences to subscribe for the Bonds
20 July 2017	Unaudited financial results, second quarter and 6 months of 2017
26 July 2017 at 14:00 (Estonian time, GMT+3)	Application to exchange J-series convertible bonds for K-series convertible bonds
16 August 2017 at 14:00 (Estonian time, GMT+3)	Offer period ends
16 August 2017 at 16:00 (Estonian time, GMT+3)	Payment term
16 August 2017	Issuance of Bonds
17 August 2017	Publication of the results of the Offering

During the period from 15 July 2019 at 10:00 a.m. (Estonian time, GMT+3) until 18 August 2019 at 02:00 p.m. (Estonian time, GMT+3) (the "Share Subscription Period") each owner of the Bond has the right to require from the Company that Bonds be exchanged for the shares of the Company. Each Bond gives to its owner the right to subscribe for 15,625 shares of the Company with the nominal value of 0.2 euros (the "Shares") and with the subscription price of 0.32 euros.

The term of the Bond is two years. In case the Investors do not subscribe for the Shares during the Share Subscription Period, the Investors shall lose the right to acquire Shares and the amount paid for the Bonds (5,000 euros for each bond) shall be repaid to the Investors within one month after the expiry of the Share Subscription Period. In case the Investors do subscribe for the Shares, the issuance price of the Bonds shall be settled with the payment for the Shares.

Risks

Baltika Group is exposed to different types of risks. The main risk factors are operational (including competition, consumer's purchasing behaviour, dependence on suppliers, dependence on key personnel, financing and loan agreements), industry-specific, risks inherent in foreign operations (including Baltic countries, franchise and wholesale partners), market (including currency risk, interest rate risk and price risk), credit and liquidity risks. In addition to risks related to Baltika Group business, Investor is also exposed to risk factors related to the type of security issued.

Risks factors related to the type of security issued

Market risk (liquidity risk) should be evaluated by a potential investor considering that the Bonds will be transferrable but not listed on any secondary market. There is no guarantee of liquidity of the Bonds. The investor might not be able to sell the bonds or bear a loss due to unfavourable price.

An investment into the Bonds is a subject to credit risk, which means that the company may fail to meet its obligations arising from the Bonds in a duly and timely manner. The Company's ability to meet its obligations arising from the Bonds and the ability of the holders of the Bonds to receive payments arising from the Bonds depend on the financial position and the results of operations of the Company and the Group, which are subject to other risks described in this Prospectus. As a credit risk of the bonds, a potential investor should assess specific credit risks associated with Baltika. As a specific credit risk, events that undermine the creditworthiness of Baltika should be considered.

Interest rate risk should be assessed by a potential investor considering that besides the activities of the Company the developments of financial markets may affect the value of the Bonds for the Investor. When the interest rates are rising, the fixed interest rate of Bonds becomes less favourable for the Investor and vice versa.

An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments.

While the risks named above and described in detail under Section 2 are the main ones, they do not constitute an exhaustive list of the risks to which the Group may be exposed to and which may need to be addressed. There may be risks that the Group is currently not aware of or at the present does not consider significant but which could likewise have an effect on the Group, Bonds or the price of the shares to be converted. Nor is it possible to preclude the emergence of certain unforeseen difficulties that could have an impact on the Group's financial performance.

Information Available for Inspection

The Articles of Association of the Company, the annual reports, including audited consolidated financial statements, of the Company for the financial years ended 31 December 2016 and the results of the first quarter of 2017 are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

Year 2016 and the first quarter of 2017

In 2016, Baltika Group completed the procedures undertaken to reduce risk and improve operational efficiency in its business model. In 2014 Baltika exited from Ukrainian retail market, with brand stores there beginning collection sales on a franchise model basis. In 2015, Baltika Group exited from Russian retail market and Baltika fashion brand sales also continued through an experienced franchising partner. The successfully executed move from retail system to a franchise model in both Ukraine and Russia has allowed Baltika to continue sales of Monton and Mosaic brands to customers in these markets without Company losing significant sales volumes, but also returning to profitability.

Although the exits from the Ukrainian and Russian markets brought with them significant costs to the company, which were among the biggest reasons for the losses in 2014 and 2015 financial year, Baltika Group managed, with a number of other significant changes (in inventory management and collection development) return to profit by the end of year 2016.

Baltika Group's net profit for year 2016 was 177 thousand euros. Previous year's comparative result was loss in amount of 844 thousand euros and result with discontinued operations was net loss in amount of 6,359 thousand euros.

Baltika Group's revenue in 2016 was 46,993 thousand euros, decreasing 4% compared to previous year. Revenue growth was largest with 21% in wholesale and franchise and was 6,029 thousand euros. The increase in revenue is mainly attributable to Russian retail market's transition to franchise partner and Monton collection entrance to German department store chain Peek & Cloppenburg. Within year the number of Monton selling Peek & Cloppenburg department stores increased from 3 to 25.

In addition to wholesale channel the franchise channel is actively being developed as well. At the beginning of October 2016 Baltika signed a franchise agreement with Serbian enterprise Victoria Elegans d.o.o., who opened Baltika's brands representing store Monton AndMore in Novi Sad Serbia on 8 of March 2017.

Monton AndMore is a Baltika's new store concept to increase international sales and where in addition to Monton other Baltika's brands are represented as well.

Revenue from Baltika Group's e-store Andmorefashion.com increased 9% and was 1,063 thousand euros. With an increase of wholesale and franchise revenue and e-store revenue one of the objectives for 2016 – growth in other sales channel revenue was met.

Group's 2016 retail revenue was 39,678 thousand euros, which is 7% less than in the previous year. However the gross profit margin increased during 2016.

Baltika Group's gross profit margin in 2016 was 50%, which means 2.7 percentage points growth compared to previous year (2015: 47.3%). Gross profit margin has increased due to better intake margin and lower mark-downs, thus margin has increased in all sales channels.

In addition to minimising risks on high risk Ukrainian and Russian markets, the results have improved as well due to more effective gross profit margin management and decrease in distribution and administrative expense. The year gross profit amounted 23,497 thousand euros, the comparative result from 2015 was 421 thousand euros less i.e. 23,076 thousand euros. Distribution, administrative and general expense has decreased 773 thousand euros.

During first quarter of 2017 Group's revenue increased by 2% compared to the same period last year and was 10,757 thousand euros. Retail revenue was 8,524 thousand euros, increasing 1% compared to same period last year, the highest retail sales growth with 4% was in Estonia.

Wholesale and franchise revenue in first quarter was 1,845 thousand euros, increase of 3%. Growth in sales revenue was supported by higher sales volumes to Peek & Cloppenburg department stores chain and entrance to new franchise market in Serbia. At the end of first quarter there were 33 Baltika's brands representing franchise stores, forming 26% of total stores portfolio.

Baltika Group's e-store Andmorefashion.com sales revenue increased 38% and was 349 thousand euros. In total orders were placed from 31 countries. Countries with the largest sales are Estonia, Latvia, Lithuania, Russia and Finland. The best-selling brands in e-store were Monton and Ivo Nikkolo.

The Company's gross profit margin in the first quarter was 48.8%, which is 1.8 percentage points lower than the 50.6% margin in the same period last year. Retail gross profit margin was mainly impacted by winter products over-supply in Baltics retail markets and thus higher mark-downs which in addition competed with the full price new season products sales. In addition the first quarter gross profit margin was impacted by changing sales campaign beginning to March (in previous year sales campaign started in April). The first quarter gross profit was 5,250 thousand euros, decreasing 1% i.e. 61 thousand euros compared to last year.

Due to increased Baltics retail market sales area the distribution expense in the first quarter increased 1%, at the same time general expense decreased 2%. The distribution and general expense ratio to revenue in the quarter was 53.2% i.e. within year the costs ratio to revenue has decreased by 0.8 percentage points.

Baltika Group's first quarter resulted in net loss in the amount of 590 thousand euros. The result of last year first quarter was net loss of 493 thousand euros.

One of the company's objectives for 2017 was the revenue growth in all of the sales channels, which in first quarter was met. At the same time the increase of retail revenue came partly from deeper mark-downs, which decreased gross profit and thus the company ended the first quarter with 97 thousand euros bigger net loss than in previous year.

Summary of the Selected Consolidated Financial Information

Financial position data

in EUR thousands	31.03.2017 unaudited	31.03.2016 unaudited	31.12.2016 audited	31.12.2015 audited
ASSETS				
Current assets				
Cash and cash equivalents	605	190	419	398
Trade and other receivables	2,424	1,993	1,956	1,607
Inventories	11,090	10,548	11,096	10,424
Total current assets	**14,119**	**12,731**	**13,471**	**12,429**
Non-current assets				
Deferred income tax asset	228	234	228	234
Other non-current assets	522	613	522	584
Property, plant and equipment	2,901	2,970	3,022	2,910
Intangible assets	1,633	1,865	1,676	1,944
Total non-current assets	**5,284**	**5,682**	**5,448**	**5,672**
TOTAL ASSETS	**19,403**	**18,413**	**18,919**	**18,101**
EQUITY AND LIABILITIES				
Current liabilities				
Borrowings	7,896	4,745	5,835	3,009
Trade and other payables	6,155	5,770	6,923	6,709
Total current liabilities	**14,051**	**10,515**	**12,758**	**9,718**
Non-current liabilities				
Borrowings	977	3,267	1,196	3,312
Other liabilities	0	336	0	283
Total non-current liabilities	**977**	**3,603**	**1,196**	**3,595**
TOTAL LIABILITIES	**15,028**	**14,118**	**13,954**	**13,313**
EQUITY				
Share capital at par value	8,159	8,159	8,159	8,159
Share premium	496	496	496	496
Reserves	1,182	1,182	1,182	1,182
Retained earnings	-4,872	-5,049	-5,049	1,310
Net profit (loss) for the period	-590	-493	177	-6,359
TOTAL EQUITY	**4,375**	**4,295**	**4,965**	**4,788**
TOTAL LIABILITIES AND EQUITY	**19,403**	**18,413**	**18,919**	**18,101**

Profit and loss data

in EUR thousands	3m 2017 unaudited	3m 2016 unaudited	2016 audited	2015 audited
Revenue	10,757	10,505	46,993	48,806
Operating profit/(loss)	-470	-384	701	-295
Profit/(Loss) before income tax	-590	-493	182	-803
Net profit/(loss)	-590	-493	177	-6,359

Cash flows data

in EUR thousands	3m 2017 unaudited	3m 2016 unaudited	2016 audited	2015 audited
Net cash generated from operating activities	-1,499	-1,629	460	2,261
Net cash used in investing activities	-155	-309	-1,157	-1,209
Net cash generated from financing activities	1,840	1,730	718	-1,364
Total	**186**	**-208**	**21**	**-312**

Key figures and ratios

	2016	2015[1]
Comprehensive income data, in thousands		
Revenue	46,993	48,806
Gross profit	23,497	23,076
EBITDA	2,004	944
Operating profit	701	-295
Profit before income tax	182	-803
Net profit	177	-844
Other data		
Number of stores in retail	95	95
Number of stores total	128	123
Retail sales area in the end of period, sqm	17,161	17,046
Number of employees (31 Dec)	1,049	1,095
Sales activity key figures		
Revenue growth	-4.0%	2.0%
Retail sales growth	-7.1%	1.3%
Share of retail sales in revenue	84.4%	87.6%
Share of exports in revenue	56.4%	56.6%
Gross margin	50.0%	47.3%
Operating margin	1.5%	-0.6%
EBT margin	0.4%	-1.6%
Net margin	0.4%	-1.7%
Inventory turnover	2.17	2.16
Financial position data, in thousands[2]		
Total assets	18,919	18,101
Interest-carrying liabilities	7,031	6,321
Shareholders' equity	4,965	4,788
Current ratio	1.1	1.3
Debt to equity ratio	141.6%	131.5%
Net gearing ratio	133.2%	123.2%
ROE	3.8%	-92.8%
ROA	0.9%	-28.1%
Key share data, EUR[2]		
Number of shares outstanding (31 Dec)	40,794,850	40,794,850
Weighted average number of shares	40,794,850	40,794,850
Share price (31 Dec)	0.28	0.34
Market capitalisation, in millions (31 Dec)	11.5	14.0

Earnings per share (EPS)	0.00	-0.16
Diluted earnings per share (DPS)	0.00	-0.16
Change in EPS, %	103%	433%
P/E	65.21	-2.19
Book value per share	0.12	0.12
P/B	2.3	2.9
Dividend per preference share	0	0
Interest rate	0%	0%
Preference share dividend payout ratio	0%	0%
Dividend per share	0	0
Dividend yield	0%	0%
Dividend payout ratio	0%	0%

[1]In connection with Baltika's exit from the Russian retail business, the 2015 sales activity key figures presents only results of continued operations.
[2]Financial position data and key share data includes impact of continued and discontinued operations.

Sales activity key figures	**3m and 31 March 2017**	**3m and 31 March 2016**
Revenue (EUR thousand)	10,757	10,505
Retail sales (EUR thousand)	8,524	8,428
Share of retail sales in revenue	79.2%	80.2%
Share of exports in revenue	57.7%	58.2%
Number of stores in retail	95	94
Number of stores	128	130
Sales area at the end of period (sqm)	17,425	17,133
Number of employees (end of period)	1,047	1,103
Gross margin	48.8%	50.6%
EBITDA (EUR thousand)	-152	-59
Net profit (EUR thousand)	-590	-493
EBITDA margin	-1.4%	-0.6%
Operating margin	-4.4%	-3.7%
EBT margin	-5.5%	-4.7%
Net margin	-5.5%	-4.7%
Inventory turnover	1.99	1.84
Other ratios		
Current ratio	1.0	1.2
Net gearing ratio	189.0%	182.1%
Return on equity	-12.9%	-8.2%
Return on assets	-3.1%	-2.2%

Source: the Company

Definitions of key ratios

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

Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Debt to equity ratio = Interest-carrying liabilities/Equity
Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity
Inventory turnover = Cost of goods sold/Average inventories[3]
Return on equity = Net profit (attributable to parent)/Average equity[3]
Return on assets = Net profit (attributable to parent)/Average total assets[3]
Market capitalisation = Share price (31 Dec)xNumber of shares outstanding (31 Dec)
EPS = Net profit (attributable to parent)/Weighted average number of shares
DPS = Diluted net profit (attributable to parent)/Weighted average number of shares
P/E = Share price (31 Dec)/EPS
Book value per share = Equity/Number of shares outstanding (31 Dec)
P/B = Share price (31 Dec)/Book value per share
Dividend yield = Dividends per share/Share price (31 Dec)
Dividend pay-out ratio = Paid out dividends/Net profit (attributable to parent)
[3]Based on 12-month average

2 RISK FACTORS

While the risks described below are the main ones, they do not constitute an exhaustive list of the risks to which the Group may be exposed to and which may need to be addressed. There may be risks that the Group is currently not aware of or does not consider significant at present but which could likewise have an effect on the Group, Bonds or the price of the shares to be listed. Nor is it possible to preclude the emergence of certain unforeseen difficulties that could have an impact on the Group’s financial performance.

In its daily activities, the Group is exposed to different types of risk, managing these risks is an important and integral part of the business activities of the Group. The Group’s ability to identify, measure and control different risks is a key input for the Group’s profitability. The Group’s management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks. Group’s ultimate holding company AS Baltika considers all the risks as significant risks for the Group.

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

2.1 OPERATIONAL RISKS

Competition

The Group earns most of its revenue from fashion retailing and faces intense competition in all its markets. The Group’s main competitors are large international fashion retail groups whose financing and marketing options are better than those of the Group entities’. They may have advantages in managing their operating costs and because of economies of scale they may be able to negotiate more favourable terms from suppliers. Should the market situation change and an international fashion retailer decide to grow its market share aggressively by lowering the price, the Group could find it difficult to compete and could lose market share, which in turn could have an adverse impact on its financial position. The Group is not able to guarantee that it can compete successfully with current or future competitors or that increasing competition will not have an adverse effect on its operations, financial position or financial performance. If the Group is unable to remain competitive, it may find it difficult to increase or maintain the current level of revenue.

Consumers’ purchasing behaviour

The Group operates in business that is dependent of consumer purchasing behaviour that can change over time due to economic environment and consumer sentiment. Any economic downturn would most likely constrain sales. The Group, as a retailer and as such its cash flows are heavily dependent on its retail performance, the latter is essential because retail cash flows are used to finance the purchase of new inventory.

Dependence on suppliers

In conducting its business, the Group relies on a number of key suppliers that provide the Group with products and materials. The Group’s management is of the opinion that the Group has several alternative suppliers and is therefore not directly dependent on any single supplier. However, there is no guarantee that the Group could find a replacement for a cost-effective key supplier, which could lead to an increase in costs and a decrease in profitability.

Dependence on key personnel

Baltika Group success depends on a range of key competencies and the people who possess them. Over the years, the Group has acquired expertise and experience and the departure of any of the key personnel could have a disruptive effect on the Group's performance.

New professionals are hard to find because the number of people that have retailing, particularly fashion retailing, competencies is extremely limited. In Estonia, fashion retail training is not available and there are no vertically integrated fashion companies operating on large scale similar to Baltika Group. For Baltika Group, the main strategic areas are brand management, design and retailing.

Even if a person with appropriate competencies is found, additional in-house training has to be provided because each market has specific features which need to be considered. Such training is resource-intensive and the contribution of the new employee can be seen only after a year.

Baltika Group is consistently striving to mitigate the risk through effective teamwork, employee development, training and knowledge sharing.

Also the departure of any key executive may cause limited but noticeable damage to the Group's management quality and the motivation of the remaining staff.

Financing and loan agreements

The Group's loan and lease agreements and guarantees include various restrictive covenants and impose the obligation to obtain the creditor's prior consent for certain activities such as taking additional loans, issuing new shares, distributing dividends, changing the Group's structure or field of activity and merging with another company.

All loan, lease and guarantee agreements signed with financing institutions include the usual default and cross-default provisions. The cross-default provisions expose the Group to the risk of default that depends on meeting the obligations taken under agreements signed with other financing institutions. Most agreements define taking additional debt obligations without the creditor's prior consent as breach of contract. Breach of a loan, lease or guarantee agreement or submission of an early repayment claim by a creditor may have a significant adverse impact on the Group's operations, financial performance and financial position.

The Group has entered into financing agreements with various financing institutions. Inability to meet the obligations taken under those agreements may result in the realization of the collateral put up by the Group through enforcement proceedings. Most of the interest rates of the loans taken by the Group entities are linked to the EURIBOR and EONIA base rate. Accordingly, a rise in the EURIBOR and EONIA base rate will result in growth in the Group's finance costs.

2.2 INDUSTRY-SPECIFIC RISKS

The Group's operations are mostly affected by the cyclical nature of economies in target markets and changes in competitive positions.

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 the one hand and adequately consider local conditions on the other.

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

The most important operating risk arises from the Group's inability to produce collections which would meet customer expectations and the goods that can 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 and help to monitor sales and balance of inventories daily. Furthermore the information can be used to plan for 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. When creating collections and planning the volume as well as timing of sales, regular weather conditions are assumed in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may differ significantly from the budget.

2.3 RISKS INHERENT IN FOREIGN OPERATIONS

Besides Estonia, the Group operates in Latvia and Lithuania. The Group's operations may be influenced by the instability of their economic environment, which in turn may have an adverse impact on the Group's financial position and financial performance.

Risks related to doing business in the Baltic countries

Markets such as Estonia, Latvia and Lithuania are subject to slightly greater risks than more mature markets, including legal, economic and political risks.

Expectations for 2017 are similar for Estonia, Latvia and Lithuania: economic growth will be around 2-3%, mainly supported by an increase in public sector investments. The acceleration of Estonia's economic growth is also boosted by Estonia's presidency of the European Union. The increase in prices is estimated to accelerate sharply in 2017, mainly due to an increase in the price of raw materials. The price increase combined with a certain deceleration in the nominal growth of salaries should have an adverse effect on the growth of consumption.

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

Risk relating to doing business with franchise and wholesale partners

Baltika Group brands are available to clients in some markets through franchise partners. The sales volumes on those markets depend on economic environment as well as the franchise partner. In addition to impact on franchise sales there is the risk of surplus inventory as the purchase agreements are made long in advance. The risk related to materialising the sales is described in the Credit risk section.

2.4 FINANCIAL RISKS

Market Risk

Foreign exchange risk

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).

Trading with the counterparties in countries belonging to the European Monetary Union is handled mainly in euros. The Group's main revenues arise from retail sales, the prices of goods in the markets are fixed in a local currency and as the local currency in all retail markets is euro the foreign exchange risk does not impact retail revenue.

Foreign exchange risk arises only from trade payables, as cash and cash equivalents, trade receivables and borrowings are in euros and thereof not 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 borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. There is no fair value interest rate risk as the Group has no interest bearing financial instruments, which are recognised at fair value. Interest rate risk is primarily caused by the potential fluctuations of Euribor or Euonia 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 977 thousand euros at 31 March 2017 and 1,196 thousand euros at 31 December 2016 were subject to a floating 6 month interest rate based on Euribor. The Group analyses its interest rate exposure on a regular basis. Various scenarios for reducing risks are considered. These scenarios include refinancing, renewal of existing positions and alternative financing.

The Group uses no hedging instruments to manage the risks arising from fluctuations in interest rates.

Credit risk

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

Cash and cash equivalents

Baltika accepts as banks and financial institutions mostly independently rated parties with a minimum rating of "A" as long-term counterparties in Baltic states. For banks in Eastern Europe Baltika considers the other ratings may also acceptable.

Trade receivables

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

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

As at 31 March 2017 the maximum exposure to credit risk from trade receivables and other non-current assets amounted to 2,136 thousand euros (31 December 2016: 1,713 thousand euros) on a net basis after allowances.

Liquidity risk

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

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, bond issues, monitoring the terms of receivables and purchase contracts.

2.5 RISK FACTORS RELATED TO THE TYPE OF SECURITY ISSUED

Security-specific risks related to the issued Bonds could be outlined as follows:

- Market risk (liquidity risk);
- Credit risk of the bonds;
- Interest rate risk;
- No ownership rights;
- Under-subscription.

Market risk (liquidity risk)

Market risk (liquidity risk) should be evaluated by a potential investor considering that the Bonds will be transferrable but not listed on any secondary market. There is no guarantee of liquidity of the Bonds. The investor might not be able to sell the bonds or bear a loss due to unfavourable price.

Credit risk

An investment into the Bonds is a subject to credit risk, which means that the company may fail to meet its obligations arising from the Bonds in a duly and timely manner. The Company's ability to meet its obligations arising from the Bonds and the ability of the holders of the Bonds to receive payments arising from the Bonds depend on the financial position and the results of operations of the Company and the Group, which are subject to other risks described in this Prospectus. As a credit risk of the bonds, a potential investor should assess specific credit risks associated with Baltika. As a specific credit risk, events that undermine the creditworthiness of Baltika should be considered.

Interest rate risk

Interest rate risk should be assessed by a potential investor considering that besides the activities of the Company the developments of financial markets may affect the value of the Bonds for the Investor. When the interest rates are rising, the fixed interest rate of Bonds becomes less favourable for the Investor and vice versa.

No ownership rights

An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments.

Under-subscription

The Offering is not guaranteed by any person in the meaning of the Securities Market Act. However, KJK Fund, Sicav-SIF, the largest shareholder of AS Baltika, has signed the obligation to subscribe Bonds in the amount of up to 3,600,000 euros and will participate in the Offering as all other Investors. Provided that KJK Fund, Sicav-SIF shall subscribe for Bonds in the amount of up to 3,600,000 euros according to their obligations there can be under-subscription in the amount of 900,000 euros the most. If it becomes evident that the total number of Bonds subscribed for are less than the planned issuance, the Company shall not cancel the Offering in its entirety. In case the Bonds are not subscribed for in total amount during the Offer Period, the Management Board shall prolong the subscription period or the undersubscribed Bonds shall be cancelled. As KJK Fund, Sicav-SIF commitment means that the main objective – refinance of J-Bonds will be covered, in case of under-subscription the other objective – developing wholesale and franchise channel has to be self-financed and may not be completed in full as planned.

Security specific risks related to the conversion option of the Bonds could be outlined as follows:

- Volatility of the share price
- Future dividend pay-outs
- Dilution
- Analyses published in respect of the Group

Volatility of the share price

There is no certainty about future movements in the price of a share that has been issued and listed. The general market price of shares may depend on several factors such as future interest rates, sector-specific indicators and market conditions, the Group's performance and cash flows, and the market terms of securities issued by other companies operating in the same or similar industry. The share price may fluctuate even if the Group's operating results meet expectations.

Future dividend pay-outs

There is no certainty that the Company will pay dividends on the shares. Nor is there any certainty about the size of a dividend payment. The distribution and size of dividends is decided by the Company's Management Board and Supervisory Board and is ultimately at the discretion of the general meeting of the Company's shareholders. Dividend distributions depend on the Company's unrestricted cash funds and estimated cash needs, the Group's financial performance and financial position, any restrictive covenants provided in the Company's loan agreements and other factors.

Dilution

There is no certainty about future needs and form of financing the Group may require. Should the company issue additional shares or convertible bonds the ownership in the Group may be diluted.

Analyses published in respect of the Group

Share trading depends extensively on the reports and research published by sector and securities analysts in respect of the Group and its operations. The Group has no control over the activities of such analysts. If one or several analysts covering the Group lower the target price of the share, the share price may drop.

3 OFFERING

3.1 BONDS

Company name	Aktsiaselts BALTIKA
Registration number	10144415
Type of Bonds	Convertible bonds
Series designation	K-Bond
Issuance date	16 August 2017
Issuance price of Bonds	5,000 euros
Number of Bonds	900
Nominal value of Bond	3,125 euros
Interest	6.0% per annum
Maturity date	16 August 2019
Redemption price	5,000 euros
Number of shares exchanged for each Bond	15,625
Share conversion price	0.32 euros

The Offering comprises of 900 Bonds with issuance price of 5,000 euros, which are being offered to the Company's shareholders and to the public in Estonia with the issue of convertible bonds. Also investors outside Estonia may participate provided that they act in accordance with the laws of their jurisdiction. The Offering shall take place in Estonia.

The Company's shareholders fixed in the share register on 14 July 2017 at 08:00 (Estonian time, GMT+3) shall be granted the pre-emptive right to subscribe for the Bonds. The shareholders have a pre-emptive right to subscribe for the Bonds in proportion to the sum of the nominal value of the shareholder's shares.

Pursuant to the law, if it becomes evident that Bonds are subscribed for in excess of the planned issuance, the Supervisory Board has the right to decide on the distribution of Bonds based on the number of subscriptions of Bonds and on the cancellation of oversubscribed Bonds.

The Offering is not guaranteed by any person in the meaning of the Securities Market Act. However, KJK Fund, Sicav-SIF has signed the obligation willing to subscribe Bonds in amount of up to 3,600,000 euros. For fulfilling the obligation, KJK Fund, Sicav-SIF shall submit the Subscription Application in the amount of 3,600,000 euros and will participate in the Offering as all other Investors.

The aim of the K-Bonds issuance is to refinance J-Bonds (issued in 2014). One of the J-Bond holders KJK Fund, Sicav-SIF has let the Company know that they do not want to subscribe shares under J-Bonds, thus the Company has an obligation to return the amounts paid for the J-Bonds together with accrued interest to KJK Fund Sicav-Sif on 31st of August 2017 at the latest. The Company and KJK Fund Sicav-Sif can offset the amounts payable for J-Bonds and the amounts receivable for K-Bonds. With the settlement KJK Fund Sicav-Sif has offset the payment obligation for K-Bonds in the amount of the settlement. If other J-Bond owners do not want to subscribe shares under J-Bonds and would like to subscribe K-Bonds instead, the Company has the right to settle the J-Bond repayment with accrued interests in the amount that equals to the K-Bonds subscribed by such a J-Bond owner. All J-Bonds holding Investors, who would like to subscribe for K-Bonds and would like to offset those with J-Bonds have to submit the application to exchange Baltika AS J-series convertible bonds ("Exchange Application") at the latest on 26th of July 2017 at 14:00 on Estonian time. The Exchange Application with other applications is made public together with Prospectus and is also available for download on www.baltikagroup.com.

The Company expects to issue the Bonds on 16 August 2017 and to announce the allocation of the Bonds on 17 August 2017 through the NASDAQ OMX Tallinn company announcement facility. There shall be deemed to be an under-subscription if all Bonds are not subscribed for during the Offer Period.

In case of under-subscription

If it becomes evident that the total number of Bonds subscribed for are less than the planned issuance, the Company shall not cancel the Offering in its entirety. In case the Bonds are not subscribed for in total amount during the Offer Period, the Management Board shall prolong the subscription period or the undersubscribed Bonds shall be cancelled. The prolongation of the Offer Period together with the new payment date will be announced immediately through the NASDAQ OMX Tallinn company announcement facility. All terms of Offering remain unchanged but the dates would be changed according to the time of the new issuance. Provided that KJK Fund, Sicav-SIF shall subscribe for Bonds according to their obligations there can be under-subscription in a maximum amount of 900,000 euros.

The rights of the Investors

If the Company does not issue the K-Bonds, the Investors have the right to require the issuance of K-Bonds and the Investors can use all legal remedies against the Company in case of non-performance. If the Company does not fulfil the payment obligations, the Investors have the right to require the late payment penalty pursuant to the Law of Obligations Act.

3.2 TERMS AND CONDITIONS OF THE OFFERING

Right to participate in the offering

The Offering is made to the Company's existing shareholders fixed in the share register on 14 July 2017 at 08:00 (Estonian time, GMT+3) and to new investors. Investors outside Estonia may participate in the Offering only in case it is allowed under applicable laws to such investors bearing in mind that this Offering is not directed to persons whose involvement in the Offering requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law. The Offering shall take place in Estonia.

Offer period

Investors may submit Subscription Orders for Bonds during 34 day period from 10:00 (Estonian time, GMT+3) on 14 July 2017 until 14:00 (Estonian time, GMT+3) on 16 August 2017.

Offer price

The Bonds will be nominated in euros. The Offer price is 5,000 euros per Bond.

Agent

AS LHV Pank (registry code in Estonian Commercial Register: 10539549), located at Tartu maantee 2, 10145 Tallinn, Estonia, performs duties of the Agent of Bond issue, mediating the issue-related payments. The agent also acts as a mediator of the information and documents between the Company and the Investors and shall perform other duties provided in this Prospectus. Contact information tel. +372 6800 426, fax +372 6 800 402.

Submission of Subscription Applications

The Company will invite investors to submit Subscription Applications during the Offer Period in accordance with these Terms.

No action has been taken in any jurisdiction by the Company that would permit the public offering of the Bonds other than in Estonia, and the Offering is not being made in any jurisdiction in which it would

not be permissible to offer the Bonds. This Offering is not directed to persons whose involvement in the offer requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law.

To receive Bonds an investor must have a securities account with the Estonian Central Register of Securities (the "ECRS"). Such securities account can be opened through any account operator of the ECRS (a "Custodian"). As at the date of this Prospectus the following financial institutions operate as qualifying Custodians:

- AS Citadele banka,
- AS Eesti Krediidipank,
- Swedbank AS,
- AS LHV Pank,
- Nordea Bank AB Eesti filiaal,
- Danske Bank A/S Eesti filiaal,
- Versobank AS,
- AS SEB Pank,
- Tallinna Äripanga AS.

An investor wishing to submit a Subscription Application should send the filled and signed document to the Agent. Paper form Subscription Applications should be sent to AS LHV Pank Tartu mnt 2, Tallinn. Digitally signed applications should be sent to markimine@lhv.ee. The Subscription Application is made public together with the Prospectus and is also available for download on www.baltikagroup.com.

The shareholders should be aware that the shareholder's pre-emptive right to subscribe for the Bonds is freely transferable.

The Investor needs to fill in the Subscription Application the following details:

Subscriber

Name of the subscriber:	Name of the investor
Personal identification code or registry code:	Social security number/ personal identification code if investor is a natural person, registry code if legal person
Address:	Address of the investor
Telephone, email, fax:	Telephone, email, fax of the investor
Bank account number of the subscriber	Bank account number of the investor where refunding should be transferred if applicable
Number of securities account:	Number of the investor's securities account
Name of the account operator	Name of the investor's securities account operator

Details of subscription

Date:	Date of signing the Subscription Application
Number of Bonds to be subscribed:	Maximum number of Bonds which the investor wishes to acquire
The amount of money to be paid for the Bonds to be subscribed (number and in words): number of bonds times issue price of EUR 5,000	For example if Number of Bonds to be subscribed is 2: 10,000, ten thousand

For assistance in submitting the Subscription Application Investor can contact the Agent +372 6800 426.

It is the investor's responsibility to ensure that all information contained in his Subscription Application is correct, complete and readable. The Company shall have the right to reject any Subscription Application which is incomplete, incorrect or unclear.

By submitting a Subscription Application an investor:

- accepts these Terms and agrees with the Company that these Terms will be applicable to the investor's acquisition of Bonds;
- acknowledges that the Offering does not constitute a legally binding offer on behalf of the Company for the sale of the Bonds, and that the submission of a Subscription Application does not itself entitle the investor to acquire the Bonds nor result in a contract for the sale of Bonds;
- accepts that the number of Bonds indicated in the Subscription Application is considered to be the maximum number of Bonds which the investor would like to acquire and that the investor may receive less Bonds than this maximum amount;
- undertakes to pay for or settle the Bonds subscribed for in accordance with the terms and conditions of the present Offering;
- accepts that the Company can reduce the number of Bonds allocated to the investor.

Amendment or cancellation of Subscription Applications

An investor may cancel their Subscription Application any time before the end of the Offer Period. Information regarding cancellation should be sent in writing to markimine@lhv.ee.

For amendment in Subscription Application notice of cancellation should be sent and new Subscription Application submitted. If transfer of payment in case of cancellation, or excess transfer of payment in case of amendment is made prior to sending cancellation or amendment, the funds will be returned by the Agent within three banking days after the issuance of Bonds.

Submission of Exchange Application

All J-Bonds holding Investors, who would like to subscribe for K-Bonds and would like to offset those with J-Bonds have to submit the application to exchange Baltika AS J-series convertible bonds ("Exchange Application") at the latest on 26th of July 2017 at 14:00 on Estonian time. The Exchange Application with other applications is made public together with Prospectus and is also available for download on www.baltikagroup.com.

The Investor needs to fill in the Exchange Application the following details:

Name:	Name of the investor
Identity code/reg. code:	Social security number/ personal identification code if investor is a natural person, registry code if legal person
Number of bonds to exchange:	Number of the J-series bonds investor would like to exchange to K-Bonds
Number of bonds to retain:	Number of the J-series bonds investor would like to retain

Payment

An investor shall make the payment to the Agent account EE397700777000310434 so that the payment is received by the Agent by no later than on 16 August 2017 at 16:00 (Estonian time, GMT+3). The transaction amount to be transferred will be equal to the Offer Price multiplied by the maximum number of Bonds subscribed by the investor. In a case where Investor who is also holding J-Bonds would like to settle these with K-Bonds, the transaction amount to be transferred will be equal to the Offer Price multiplied by the maximum number of Bonds subscribed minus the settlement amount (up to in a total amount of J-Bonds owned by Investor together with accrued interest).

The investor will lose all rights to subscribe for Bonds pursuant to that Subscription Application if the payment is not made in accordance with present terms and conditions.

Release of funds

If the allocation deviates from the amount of Bonds applied for, the funds transferred to the Agent account, or the part thereof (the amount in excess of payment for the allocated Bonds) shall be returned by the Agent within three banking days after the issuance of Bonds.

The Company assumes no liability for the return of the investor's funds by the Agent or for the payment of any interest accrued on the funds for the time when the funds were at the disposal of the Agent.

Allocation principles

Only when a Subscription Application is submitted and payment is received by the Agent in full compliance with these Terms will the investor be permitted to participate in the allocation process. The Company reserves the right to reject any Subscription Application in case payment has not been received by the Agent in compliance with these Terms.

Possible multiple Subscription Applications submitted by one investor shall be merged for the purposes of Preferential allocation as described below.

Preferential allocation

The Company's shareholders fixed in the shareholders' list on 14 July 2017 at 08:00 (Estonian time, GMT+3) shall be granted number of Bonds in proportion to their shareholding provided that investors have submitted a valid Subscription Application during the Offer Period. Therefore shareholders will be entitled to a preferential allocation of Bonds (the "Preferential allocation") in the Offering before other investors.

In case the number of existing shares of the shareholder shall not grant the right to subscribe to a round number of Bonds, the number of allocated Bonds will be rounded down to the closest round number of Bonds. If there are sufficient Bonds to allocate Bonds rounding up to the closest round number of Bonds and for such number Subscription Application has been made, the allocation will be made accordingly. If there are not sufficient Bonds to allocate to all for rounding up, then the shareholders who have not received any Bonds will be allocated the Bonds in the first order. A second criterion for making the allocation is the smaller amount to round up.

If an Investor subscribes for more Bonds than entitled by the shareholding in addition to rounded up number of Bonds, they participate in the allocation of the Bonds exceeding the preferential allocation in the general tranche.

General tranche

The Bonds that have not been allocated in the course of the Preferential allocation (i.e. Remaining Bonds) will be divided pro rata among existing shareholders outstanding Bonds subscriptions after Preferential allocation and among other investors who subscribed for bonds without pre-emptive rights based on the subscribed amounts in their subscription application.

In all cases the allocation of the Bonds will be decided by the Company in consultation with the legal adviser.

Distribution and registration

The publication of results of Offering will be made on 17 August 2017. The Agent will send digitally signed or scanned copy of confirmation to the Investor.

Should the Investor require confirmation in paper, then Agent should be submitted a request to post it.

Bonds shall be registered with the Estonian Central Registry of Securities *(Eesti Väärtpaberite Keskregister)*. The respective application shall be made by the Company within three (3) business days to the Estonian Central Registry of Securities from the date of issuance of the Bonds. The Bonds allocated to the Investors shall be transferred to their respective securities accounts when Bonds are registered with the Estonian Central Registry of Securities.

Key dates

The following are indicative key dates related to the Offering.

8 May 2017	The Annual General Meeting decides the issuance of Bonds
14 July 2017 at 08:00 (Estonian time, GMT+3)	The list of shareholders is fixed for the use of pre-emptive right to subscribe for the Bonds
14 July 2017 at 08.00 (Estonian time, GMT+3)	Offer period commences to subscribe for the Bonds
20 July 2017	Unaudited interim accounts for the II quarter published
26 July 2017 at 14:00 (Estonian time, GMT+3)	Application to exchange J-series convertible bonds for K-series convertible bonds
16 August 2017 at 14:00 (Estonian time, GMT+3)	Offer period ends
16 August 2017 at 16:00 (Estonian time, GMT+3)	Payment term
16 August 2017	Issuance of Bonds
17 August 2017	Publication of the results of the Offering
22 August 2017	Application is filed to ECRS to register the Bonds
29 August 2017	Bonds are transferred to the securities accounts of the Investors

3.3 CONVERSION TO AS BALTIKA SHARES

During the period from 15 July 2019 at 10.00 a.m. (Estonian time, GMT+3) until 18 August 2019 at 02:00 p.m. (Estonian time, GMT+3) each owner of the Bond has the right to require from the Company that Bonds be exchanged for the shares of the Company. The Application form with up to date contact details will be sent prior to 15 July 2019 by the Company to all Bond holders. Each Bond gives to its owner the right to subscribe for 15,625 shares of the Company with the nominal value of 0.2 euros.

Shares subscribed by Bond holders shall give each Bond holder all rights of the shareholder of the Company as of the date of the issuance of the Shares. Investors shall deliver the applications to subscribe for the shares to the Management Board in writing and with the delivery of such applications the Shares are subscribed for and Investors may request the Board to issue a certificate of subscription.

The share subscription price is 0.32 euros. The Issuance price of the Bond shall be calculated as payment for the Share Subscription Price. The amount between Share Subscription Price and nominal value of the share is premium, which is 0.12 euros.

Bond holders are entitled to subscribe for the Shares by themselves. Investors shall notify the Board of the securities account number where the issued and paid Shares should be transferred (in case the number of securities account is different from the securities account where the Bonds are held).

The amount of share capital of the Company as of the date of this Prospectus is 8,158,970 euros, divided into 40,794,850 registered shares with the nominal value of 0.20 euros. Pursuant to the decision of the annual ordinary general meeting of shareholders dated 28 April 2014, the J-Bonds were issued and the share capital was conditionally increased in the amount of up to 1,200,000 euros. In exchange for J-Bonds, 6,000,000 shares of the Company may be issued in July 2017. The share capital of the Company may thereafter be 9,358,970 euros.

The maximum amount of shares converted from Bonds represent approximately 25.6% of the Company's share capital following the conversion and approximately 34.5% of the Company's share capital prior to the conversion based on current share capital without conditional increase registered for J-Bonds. The maximum amount of shares converted represent approximately 23.1% of the Company's share capital following the Offering and approximately 30.1% of the Company's share capital prior to the Offering based on share capital if full amount of J-Bonds are converted in July 2017.

3.4 TERMS AND CONDITIONS OF BONDS

Bonds are securities, representing the Company's debtual obligation in the amount of Issuance price of the Bonds. The Company's debt obligations rank *pari passu* with the rest of the Company's unsecured and unsubordinated debt obligations.

Interest

Bonds bear interest 6.0% per annum. Calculation of interest is based on the Issuance price of Bonds and the actual number of days during the period from 17 August 2017 to 16 August 2019. The interest is compounded annually and paid once after 16 August 2019 within one month after the end of the Share Subscription Period (at the latest by 18 September 2019).

Taxation

The Bonds proceeds are subject to taxation in accordance to the legislation, effective in the Republic of Estonia or in the Investor's home country. Income tax shall be withheld, if pursuant to the legal acts effective in the Republic of Estonia, income tax is to be withheld from the payments related to Bonds.

The following is based on the tax laws of Estonia in effect as of the date of this Prospectus and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is in no way exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Estonia. Investors are encouraged to seek specialist advice as to the Estonian and other tax consequences of the purchase, ownership and disposition of the Bonds. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Income tax is withheld (in Estonia currently 20%) from interest payment subject to income tax paid to a non-resident or to a resident natural person. If an international agreement prescribes lower rates for withholding income tax from a payment made to a non-resident the rates prescribed by the international agreement are applied if the withholding agent submits a document certifying the recipient of income and the residency of the recipient of income to the Tax and Customs Board together with the tax return. The document need not be submitted if data on the recipient of income and the residency of the recipient of income have been entered in the register of taxable persons provided for in the Taxation Act.

Transfer and encumbrances

The owner has the right to transfer Bonds to third parties. The Bonds may be pledged. In order to pledge a Bond, a written disposition shall be prepared concerning the establishment of the pledge and a notice concerning the pledge shall be entered in the ECRS. Upon pledge of a Bond, the pledgor shall exercise the rights attached to the Bonds.

Redemption

The term of the Bond is two years. Neither the Issuer nor the Bond holder has the right to redeem the Bonds early. In case the Investors do not subscribe for the Shares during the Share Subscription Period, the Investors shall lose the right to acquire Shares and the amount paid for the Bonds (5,000 euros for each bond) shall be returned to the Investors simultaneously within one month after the expiry of the Share Subscription Period. The investors may also decide to convert only some of the Bonds they hold in which case the Company shall buy back the Bonds not converted for 5,000 euros within one month after the expiry of the Share Subscription Period and cancel these Bonds not converted.

Changes to terms and conditions

The terms and conditions of the issuance of Bonds may be changed by the decision of the general meeting of the shareholders of the Company and upon the consent of all Bond holders.

3.5 USE OF PROCEEDS

Background and reasons for the offering

The purpose of the Offering is to refinance the J-Bonds, issued in 2014. The fees and expenses incurred in connection with the Offering and payable by the Company are estimated to remain below 20 thousand euros (excluding applicable taxes).

The company will use the remaining 4,480 thousands euros raised from the issue in the following order of importance: 3,624 thousand euros to refinance the J-Bonds and the remaining 856 thousand euros will be invested to develop and expand export through wholesale and franchise channel and e-commerce.

The Offering and the related conditional share capital increase was approved by the Company's Annual General Meeting of Shareholders on 8 May 2017. The decision of the Annual General Meeting of Shareholders has been published on the NASDAQ OMX Tallinn and on the Company's website on 8 May 2017.

Use of proceeds

The main portion of proceeds will be used to refund the Bonds issued during 2014 (J-Bonds). The amount left outstanding will be used to develop and extend export through wholesale and franchise channels and e-commerce.

In 2016, Baltika Group completed the procedures undertaken to reduce risk and improve operational efficiency in its business model. In 2014 we exited from Ukrainian retail market, with brand stores there beginning collection sales on a franchise model basis. In 2015, Baltika Group exited from Russian retail market and Baltika fashion brand resales also continued through an experienced franchising partner. The successful executed move from our retail system to a franchise model in both Ukraine and Russia has allowed us to continue sales of Monton and Mosaic brands to customers in these markets without us losing significant sales volumes, but also returning to profitability.

Although exiting from the Ukrainian and Russian markets brought significant costs to the company, which were among the biggest reasons for the losses in 2014 and 2015 financial years, Baltika Group managed, with a number of other significant changes (in inventory management and collection development), to create a business model that allows for profitable growth and uses multi-channel sales by the beginning of 2017: the historically profitable Baltic retail market in combination with the fast-growing potential of wholesale, franchise and e-commerce trends.

The largest challenge in the coming years will certainly be developing the business model to be more competitive on an international level – Baltika is becoming an international brand house whose aim is to offer excellent brand-driven customer experiences in all sales channels.

AS Baltika's strategical growth directions during the coming years (2017-2019) are mainly directed to export through wholesale, franchise and e-commerce. Franchise has been chosen as the main growth trigger, as this business model allows the better use of Baltika's strengths – strong brand portfolio, strong and diverse store concept portfolio and retail operating experience, in addition franchise channel risks are more easily preserved. To accelerate the franchise channel growth the franchise client's value proposition has been described, to enter new franchise markets Baltika has a cooperation with a consultant and also Baltika participates in various export platforms. The main markets on focus are in Central Europe. In addition to entering to new markets plans to strengthen cooperation with existing partners in Russia, Ukraine, Belarus, Serbia and Spain is in works and this through operative and marketing cooperation.

In wholesale channel actions are directed to enter new department stores and store chains. The main target markets for wholesale are Germany, Finland and Russia – markets where Baltika's brands already have partial reputation and business volume from where it is possible to increase volumes and to gain new clients. In wholesale the focus is on cooperation with agents who have established contacts network and brand sales in showrooms and fairs. Both, showrooms and fairs are rather expensive and are sales channels with long payback period, but at the same time these are the best platforms to find new clients. With expansion of client base the client maintenance process need to be improved and made more efficient to ensure clients satisfaction with products and services.

To support Company's actions to extend export, Baltika has joined with several different Estonian enterprises containing export platforms, for example Tallinn Design House which is curated by Loomeinkubaator, also export program "Missioon Saksamaa" (*"Mission Germany")* in cooperation with Marketing Instituut and EAS (Enterprise Estonia).

To support fast growing e-commerce the plan is to exchange e-store's Andmorefashion.com platform. Also e-store has an important role in growing export – selling Baltika's brands through third parties e-stores and developing Baltika's e-store Andmorefashion.com through partners.

4 ISSUER

4.1 GENERAL INFORMATION

The Company's business name is Aktsiaselts BALTIKA. The Company is a public limited company established pursuant to the laws and regulations of the Republic of Estonia. The Company is registered at Harju County Court registration department under the registry code 10144415. Please see the Company's website www.baltikagroup.com for more information.

The Company was established on 1 August 1991 and registered with the enterprise register held by the local municipality. After the enforcement of the Estonian Commercial Code, all companies had to register themselves pursuant to the requirements of the new legislation. Baltika was registered at Harju County Court registration department on 9 May 1997. The legal address of the Company is Veerenni 24, Tallinn 10135, Estonia and the phone number is +372 630 2731.

Baltika's shares are listed on the NASDAQ OMX Tallinn stock exchange. The listing dates are as follows: 5 June 1997 (Main List), 7 May 1998 (Secondary List) and 17 February 2003 (Main List). NASDAQ OMX Tallinn belongs to the world's largest exchange company NASDAQ OMX Group.

According to articles of association the field of activities are to design, develop, produce and arrange the sales of the fashion brands of clothing.

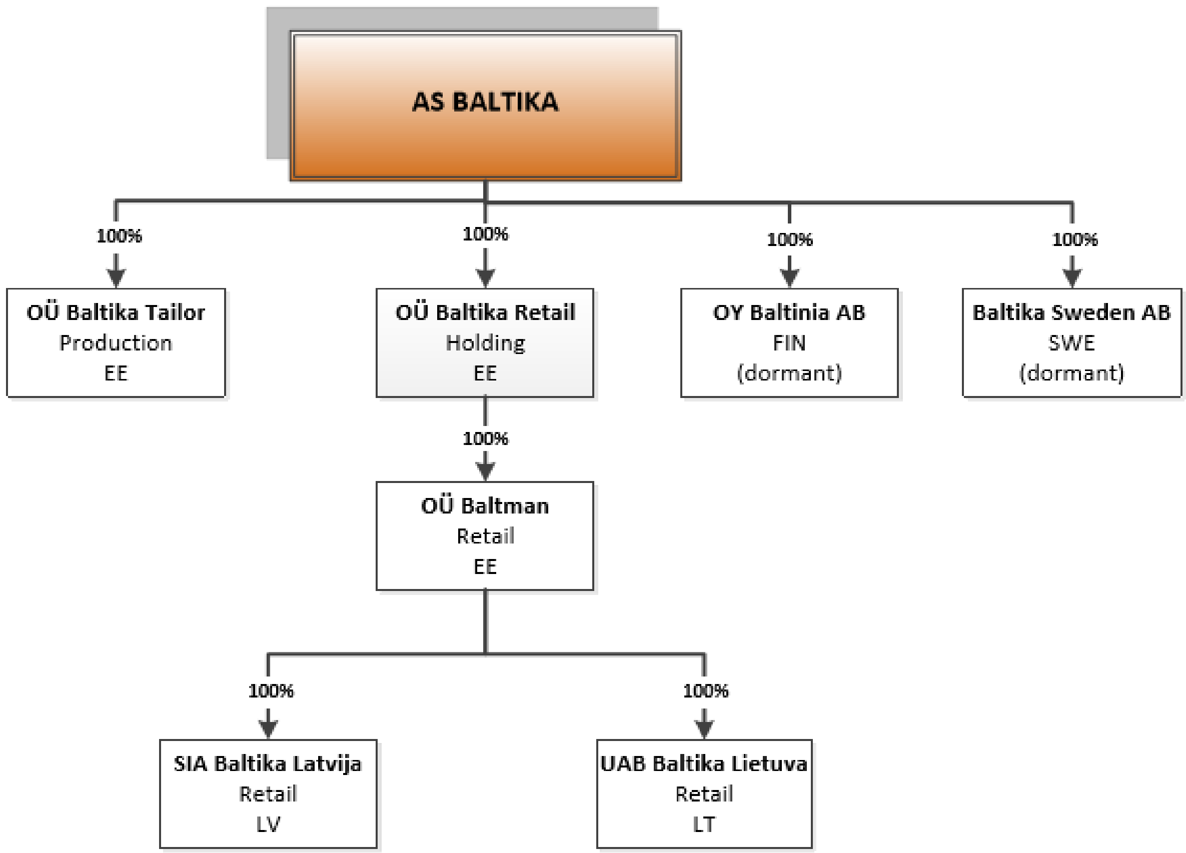
Baltika creates quality fashion that allows people to express themselves and feel great.

Baltika Group is an international fashion retailer operating in the Baltic countries and through wholesale and franchise in Central and Eastern Europe countries. Baltika Group operates five retail concepts: Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo. The Group employs a vertically integrated business model, which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The Group also sells its collections through wholesale, franchise and e-store.

Baltika has two production facilities both of which are located in Estonia. Production employs around 380 people. Approximately 70% of own production staff are employed in Tallinn and 30% in Ahtme. As the production facilities are in full use for own production, then there is very limited sewing services offered to external parties.

4.2 LEGAL STRUCTURE OF BALTIKA GROUP

As at 10 July 2017



AS Baltika, OÜ Baltika Retail, OÜ Baltman and OÜ Baltika Tailor are located in Estonia; SIA Baltika Latvija in Latvia; UAB Baltika Lietuva in Lithuania; OY Baltinia AB in Finland and Baltika Sweden AB in Sweden.

The Group’s all own production is located in Estonia and operated by OÜ Baltika Tailor.

OY Baltinia AB and Baltika Sweden AB are dormant. There are currently no plans with the entities.

5 SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information of Baltika Group is derived as at and from the year ended 31 December 2016 as well as for the three months ended 31 March 2017.

The information as at and for the year ended on 31 December 2016 have been extracted from the Annual Consolidated Financial Statements, unless stated otherwise. The information as at and for three months ended on 31 March 2017 has been extracted from the Consolidated Interim Financial Statements.

The Annual Consolidated Financial Statements incorporated by reference in this Prospectus, have been audited by AS PricewaterhouseCoopers. The Consolidated Interim Financial Statements, incorporated by reference in this Prospectus, have not been audited nor subject to the auditors review.

The following selected consolidated financial information of Baltika Group should be read together with the Consolidated Financial Statements and other financial data included elsewhere in this Prospectus.

5.1 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

in EUR thousands	31.03.2017 unaudited	31.03.2016 unaudited	31.12.2016 audited	31.12.2015 audited
ASSETS				
Current assets				
Cash and cash equivalents	605	190	419	398
Trade and other receivables	2,424	1,993	1,956	1,607
Inventories	11,090	10,548	11,096	10,424
Total current assets	**14,119**	**12,731**	**13,471**	**12,429**
Non-current assets				
Deferred income tax asset	228	234	228	234
Other non-current assets	522	613	522	584
Property, plant and equipment	2,901	2,970	3,022	2,910
Intangible assets	1,633	1,865	1,676	1,944
Total non-current assets	**5,284**	**5,682**	**5,448**	**5,672**
TOTAL ASSETS	**19,403**	**18,413**	**18,919**	**18,101**
EQUITY AND LIABILITIES				
Current liabilities				
Borrowings	7,896	4,745	5,835	3,009
Trade and other payables	6,155	5,770	6,923	6,709
Total current liabilities	**14,051**	**10,515**	**12,758**	**9,718**
Non-current liabilities				
Borrowings	977	3,267	1,196	3,312
Other liabilities	0	336	0	283
Total non-current liabilities	**977**	**3,603**	**1,196**	**3,595**
TOTAL LIABILITIES	**15,028**	**14,118**	**13,954**	**13,313**
EQUITY				
Share capital at par value	8,159	8,159	8,159	8,159
Share premium	496	496	496	496
Reserves	1,182	1,182	1,182	1,182
Retained earnings	-4,872	-5,049	-5,049	1,310
Net profit (loss) for the period	-590	-493	177	-6,359
TOTAL EQUITY	**4,375**	**4,295**	**4,965**	**4,788**
TOTAL LIABILITIES AND EQUITY	**19,403**	**18,413**	**18,919**	**18,101**

Source: Consolidated Financial Statements

5.2 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

in EUR thousands	3m 2017 unaudited	3m 2016 unaudited	2016 audited	2015 audited
Revenue	10,757	10,505	46,993	48,806
Client bonus reserve	0	0	23	-70
Revenue after client bonus provision	10,757	10,505	47,016	48,736
Cost of goods sold	-5,507	-5,194	-23,519	-25,660
Gross profit	**5,250**	**5,311**	**23,497**	**23,076**
Distribution costs	-5,059	-5,001	-20,336	-21,010
Administrative and general expenses	-659	-669	-2,504	-2,603
Other operating income (-expenses)	-2	-25	44	242
Operating profit (loss)	**-470**	**-384**	**701**	**-295**
Finance costs	-120	-109	-519	-508
Profit (loss) before income tax	**-590**	**-493**	**182**	**-803**
Income tax expense	0	0	-5	-41
Net profit (loss) from continuing operations	**-590**	**-493**	**177**	**-844**
Net loss for the period from discontinued operations	**0**	**0**	**0**	**-5,515**
Net profit (loss)	**-590**	**-493**	**177**	**-6,359**
Basic earnings per share from net loss for the period, EUR	-0.01	-0.01	0.00	-0.16
From continuing operations	-0.01	-0.01	0.00	-0.02
From discontinued operations	0.00	0.00	0.00	-0.14
Diluted earnings per share from net loss for the period, EUR	-0.01	-0.01	0.00	-0.16
From continuing operations	-0.01	-0.01	0.00	-0.02
From discontinued operations	0.00	0.00	0.00	-0.14

Consolidated statement of other comprehensive income

in EUR thousands	3m 2017 unaudited	3m 2016 unaudited	2016 audited	2015 audited
Net profit (loss) for the period	**-590**	**-493**	**177**	**-6,359**
Other comprehensive income (loss)				

Items that subsequently might be classified to profit or loss:				
Currency translation differences	0	0	0	2,723
Total other comprehensive income (loss)	**0**	**0**	**0**	**2,723**
Total comprehensive income (loss)	**-590**	**-493**	**177**	**-3,636**
Total comprehensive loss attributable to equity shareholders arises from:				
Continuing operations	-590	-493	177	-844
Discontinued operations	0	0	0	-2,792

Source: Consolidated Financial Statements

5.3 SELECTED DATA FROM CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR thousands	3m 2017 unaudited	3m 2016 unaudited	2016 audited	2015 audited
Net cash generated from operating activities	-1,499	-1,629	460	2,261
Net cash used in investing activities	-155	-309	-1,157	-1,209
Net cash generated from financing activities	1,840	1,730	718	-1,364
Total	**186**	**-208**	**21**	**-312**

Source: Consolidated Financial Statements

5.4 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

in EUR thousands	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total
Balance as at 31 Dec 2014	**8,159**	**809**	**1,182**	**1,310**	**-2,723**	**8,737**
Loss for the period	0	0	0	-6,359	0	-6,359
Other comprehensive income	0	0	0	0	2,723	2,723
Total comprehensive loss	**0**	**0**	**0**	**-6,359**	**2,723**	**-3,636**
Equity-settled share-based transactions	0	-313	0	0	0	-313
Balance as at 31 Dec 2015	**8,159**	**496**	**1,182**	**-5,049**	**0**	**4,788**
Loss for the period	0	0	0	177	0	177
Total comprehensive loss	**0**	**0**	**0**	**177**	**0**	**177**

Balance as at 31 Dec 2016	**8,159**	**496**	**1,182**	**-4,872**	**0**	**4,965**
Loss for the period	0	0	0	-590	0	-590
Total comprehensive loss	**0**	**0**	**0**	**-590**	**0**	**-590**
Balance as at 31 Mar 2017	**8,159**	**496**	**1,182**	**-5,462**	**0**	**4,375**

Source: Consolidated Financial Statements

5.5 KEY FIGURES AND RATIOS

	2016	**2015**[1]
Comprehensive income data, in thousands		
Revenue	46,993	48,806
Gross profit	23,497	23,076
EBITDA	2,004	944
Operating profit	701	-295
Profit before income tax	182	-803
Net profit	177	-844
Other data		
Number of stores in retail	95	95
Number of stores total	128	123
Retail sales area in the end of period, sqm	17,161	17,046
Number of employees (31 Dec)	1,049	1,095
Sales activity key figures		
Revenue growth	-4.0%	2.0%
Retail sales growth	-7.1%	1.3%
Share of retail sales in revenue	84.4%	87.6%
Share of exports in revenue	56.4%	56.6%
Gross margin	50.0%	47.3%
Operating margin	1.5%	-0.6%
EBT margin	0.4%	-1.6%
Net margin	0.4%	-1.7%
Inventory turnover	2.17	2.16
Financial position data, in thousands[2]		
Total assets	18,919	18,101
Interest-carrying liabilities	7,031	6,321
Shareholders' equity	4,965	4,788
Current ratio	1.1	1.3
Debt to equity ratio	141.6%	131.5%
Net gearing ratio	133.2%	123.2%
ROE	3.8%	-92.8%
ROA	0.9%	-28.1%
Key share data, EUR[2]		
Number of shares outstanding (31 Dec)	40,794,850	40,794,850
Weighted average number of shares	40,794,850	40,794,850
Share price (31 Dec)	0.28	0.34
Market capitalisation, in millions (31 Dec)	11.5	14.0
Earnings per share (EPS)	0.00	-0.16

Diluted earnings per share (DPS)	0.00	-0.16
Change in EPS, %	103%	433%
P/E	65.21	-2.19
Book value per share	0.12	0.12
P/B	2.3	2.9
Dividend per preference share	0	0
Interest rate	0%	0%
Preference share dividend payout ratio	0%	0%
Dividend per share	0	0
Dividend yield	0%	0%
Dividend payout ratio	0%	0%

[1]In connection with Baltika's exit from the Russian retail business, the 2015 sales activity key figures presents only results of continued operations.
[2]Financial position data and key share includes impact of continued and discontinued operations.

Sales activity key figures	**3m and 31 March 2017**	**3m and 31 March 2016**
Revenue (EUR thousand)	10,757	10,505
Retail sales (EUR thousand)	8,524	8,428
Share of retail sales in revenue	79.2%	80.2%
Share of exports in revenue	57.7%	58.2%
Number of stores in retail	95	94
Number of stores	128	130
Sales area at the end of period (sqm)	17,425	17,133
Number of employees (end of period)	1,047	1,103
Gross margin	48.8%	50.6%
EBITDA (EUR thousand)	-152	-59
Net profit (EUR thousand)	-590	-493
EBITDA margin	-1.4%	-0.6%
Operating margin	-4.4%	-3.7%
EBT margin	-5.5%	-4.7%
Net margin	-5.5%	-4.7%
Inventory turnover	1.99	1.84
Other ratios		
Current ratio	1.0	1.2
Net gearing ratio	189.0%	182.1%
Return on equity	-12.9%	-8.2%
Return on assets	-3.1%	-2.2%

Source: the Company

Definitions of key ratios

EBITDA= Operating profit-depreciation and amortisation - disposal of fixed assets
Gross margin = (Revenue-Cost of goods sold)/Revenue

Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Debt to equity ratio = Interest-carrying liabilities/Equity
Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity
Inventory turnover = Cost of goods sold/Average inventories[3]
Return on equity = Net profit (attributable to parent)/Average equity[3]
Return on assets = Net profit (attributable to parent)/Average total assets[3]
Market capitalisation = Share price (31 Dec)xNumber of shares outstanding (31 Dec)
EPS = Net profit (attributable to parent)/Weighted average number of shares
DPS = Diluted net profit (attributable to parent)/Weighted average number of shares
P/E = Share price (31 Dec)/EPS
Book value per share = Equity/Number of shares outstanding (31 Dec)
P/B = Share price (31 Dec)/Book value per share
Dividend yield = Dividends per share/Share price (31 Dec)
Dividend pay-out ratio = Paid out dividends/Net profit (attributable to parent)
[3]Based on 12-month average

5.6 MATERIAL CHANGES IN BUSINESS AFTER 31 MARCH 2017

There have been no significant changes in business after 31 March 2017.

5.7 DEBT OBLIGATIONS OF THE COMPANY

Debt obligations:

in EUR thousands	31 May 2017	31 Dec 2016
Current borrowings		
Current portion of bank loans	952	1,019
Overdraft	2,783	1,620
Current portion of finance lease liabilities	188	196
Share options	3,000	3,000
Total	**6,923**	**5,835**
Non-current borrowings		
Non-current bank loans	1,167	1,046
Non-current finance lease liabilities	107	150
Total	**1,274**	**1,196**
Total borrowings	**8,197**	**7,031**

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

in EUR thousands	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 1-month Eonia and 6-month Euribor)	EURIBOR or EONIA +3.80%	5,197
J-Bonds	6.50%	3,000
Total		**8,197**

From the borrowing 3,940 thousand euros is to Swedbank AS and 980 thousand euros is to Nordea Bank Finland Plc and 277 thousand euros to AS SEB. Unused overdraft limit is 1,217 thousand euros.

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

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

The Group's collaterals for bank borrowings

Bank borrowings are secured with following asset types:

- commercial pledge to movables;
- trademarks;
- shares of the subsidiaries;
- cash equivalents on the bank accounts.

Bank loans set certain level to financial ratios for the Group.

Contingent liabilities

As of 31 May 2017 guarantees issued by the credit institutions on behalf of the Company to secure the obligations of its subsidiaries to their lessors amounted 821 thousand euros. The guarantees provided to lessors and credit institutions by the Company on behalf of the subsidiaries as of 31 May 2017 amounted to 422 thousand euros. These guarantees are contingent liabilities and are not recognised in the financial statements as it is not probable that an outflow of resources will be required to settle the obligation.

5.8 WORKING CAPITAL OF THE COMPANY

Working capital has decreased compared to the end of 2015 mainly due to the fact that large part of non-current liabilities (J-Bonds in amount of 3,000 thousand euros) have turned into current liabilities. As the KJK Fund, Sicav-SIF has signed the obligation willing to subscribe K-Bonds in amount of up to 3,600,000 euros and thus the J-Bonds are covered in full, in the opinion of Baltika, the working capital of the Group is sufficient for its present requirements (12 upcoming months). Historical working capital as at dates of balance sheet is presented in the table below. See also current ratio in Key ratio table.

in EUR thousands	**31.03.2017** unaudited	**31.12.2016** unaudited	**31.12.2015** unaudited
Working capital	68	713	2,711

in EUR thousands	**31.03.2017** unaudited	**31.12.2016** unaudited	**31.12.2015** unaudited
Working capital (excluding J-Bonds)	3,068	3,713	2,711

Working capital = Current assets – current liabilities

6 BUSINESS AND FINANCIAL OVERVIEW

6.1 OVERVIEW OF THE PRINCIPAL ACTIVITIES

The Group's business activities are divided into operating segments which are retail (Baltic Region) and other (including wholesale, franchise and e-com).

In 2014 Baltika exited from Ukrainian retail market, with brand stores there beginning collection sales on a franchise model basis. At the end of 2015, Baltika Group exited from Russian retail market and Baltika fashion brand resales also continued through an experienced franchising partner. The successful executed move from retail system to a franchise model in both Ukraine and Russia has allowed Baltika to continue sales of Monton and Mosaic brands to customers in these markets without us losing significant sales volumes, but also returning to profitability.

In connection with Baltika Group's exit from the Russian retail business, which represented a major line of business of the Group, the 2015 results of the Russian companies' retail are presented as discontinued operations. The results of the discontinued operations are reported separately from continuing operations to allow better assessment of the performance of continuing operations.

Baltika's 2017 first quarter sales increased by 2%. Wholesale and franchise channel sales showed 3% growth, e-channel 38% growth and retail growth was 1%. Retail sales proportion from sales was 79%.

in EUR thousands	Q1 2017 unaudited	Q1 2016 unaudited	2016 audited	2015 audited
Retail	8,524	8,428	39,678	42,730
Wholesale and franchise	1,845	1,784	6,029	4,976
E-com	349	252	1,063	975
Other	39	41	223	125
Total	10,757	10,505	46,993	48,806

Source: the Company

2016 retail revenue decreased 7%. Meanwhile wholesale and franchise and e-com sales increased. Revenue growth was the largest with 21% in wholesale and franchise. The increase in revenue is mainly attributable to Russian retail market's transition to franchise partner and Monton collection entrance to German department store chain Peek & Cloppenburg. Revenue from Baltika Group's e-store Andmorefashion.com increased 9%. With an increase of wholesale and franchise revenue and e-store revenue one of the objectives for 2016 – growth in other sales channel revenue - was met.

Baltika entered to new market

At the beginning of October 2016 Baltika signed a franchise agreement with Serbian enterprise Victoria Elegans d.o.o., who opened the first Monton AndMore multibrand store in Novi Sad, Serbia on 8th of March 2017. Monton AndMore is a Baltika's new store concept to increase international sales and where in addition to Monton other Baltika's brands are represented as well. Serbia is the fifth country that Baltika enters with its brand as franchisor. The first two franchise stores were opened in Belarus in 2013.

There have been no other notable changes in products, production, sales, inventory and expenses, sales prices and volumes, contractual ordering until the date of the Prospectus not disclosed herein.

Baltika has currently no reason to expect significant changes to the market position of the Group by the end of 2017. The liquidity and financial position of the Group should strengthen in the short-term by the end of the financial year with the issuance of Bonds.

6.2 OVERVIEW OF THE MARKETS AND STORES

Group had 128 stores at the end of the first quarter of 2017, among which 33 franchise stores – in Ukraine, Russia, Spain, Belarus and Serbia. The total number of stores did not change with the first quarter of 2017 compared to the last yearend and the average operating area remained the same level as last year first quarter.

Stores by market

	31 March 2017	31 March 2016	Average area change*
Estonia	44	44	6%
Lithuania	29	29	1%
Latvia	22	21	6%
Ukraine[1]	16	15	1%
Russia[1]	11	13	84%
Belarus[1]	2	2	2%
Spain[1]	3	6	-35%
Serbia[1]	1	-	-
Total stores	**128**	**130**	
Total sales area, sqm	**23,889**	**23,891**	**0%**

[1]Franchise stores

Source: Consolidated Financial Statements

2016 year total investment into retail network amounted to 1,124 thousand euros. Investments were made into over 20 stores in different capacities. In 2016 Baltika ended representing Blue Inc London brand in the Baltics states under the franchise agreement due to low sales efficiency and closed 4 stores in Estonia and in Latvia. On two of the shops' areas new concept stores were opened: In Tallinn Ülemiste shopping centre Baltman store and in Riga Origo shopping centre Bastion store was opened. In addition 2 new Baltika's brand stores were opened: in Tartu Kvartal shopping centre Monton and Mosaic store and in Riga Mols shopping centre Baltman store.

Retail network by market and brand, 31st December 2016

	Estonia	Lithuania	Latvia	Total	+/- vs 2015
Monton	9	8	6	23	0
Mixed brands	4	3	3	10	1
Mosaic	11	9	4	24	-1
Baltman	5	6	3	14	2
Ivo Nikkolo	6	3	4	13	0
Bastion	7	0	2	9	1
Blue Inc	0	0	0	0	-4
Outlet	2	0	0	2	1
Total	**44**	**29**	**22**	**95**	**0**
m^2	7,707	5,570	3,883	17,161	115

Source: Consolidated Financial Statements

Baltika Group's biggest retail market continues to be Estonia. In a year the share of Estonian market revenue has increased by 1.5 percentage points, from 45.5% to 47.0%.

Retail sales by market

EUR thousand	2016	2015	+/-	Share
Estonia	18,643	19,431	-4%	47%
Lithuania	10,875	12,107	-10%	28%
Latvia	10,160	11,192	-9%	26%
Total	**39,678**	**42,730**	**-7%**	**100%**
Russia*	0	4,492	-100%	-

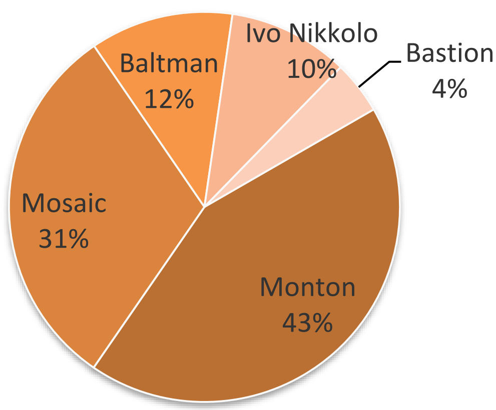
*Discontinued operations

Source: the Company

6.3 OVERVIEW OF BRANDS

In 2016 Monton brand with 45% and Mosaic brand with 31% had a largest share of Baltika Group's total revenue. Monton share of revenue increased by 4 percentage points. In retail Monton, Baltman and Ivo Nikkolo have increased their share of revenue. If in recent years Mosaic have had the largest share of wholesale and franchise revenue then in this year Monton, whose sales formed 59% of wholesale and franchise revenue, has taken the leading position in this channel as well. E-store revenue is divided more equally among brands. Monton has the largest share – 33%, followed by Mosiac with 27%. In the third place is Ivo Nikkolo brand, which deserves to be recognized, with the share of 22% of e-store sales i.e. one percentage point more than on previous year.

Breakdown of retail sales by brand – 2016



Monton

In 2016, Monton's total sales revenue amounted to 20,874 thousand euros, having grown 5.4% i.e. 1,139 thousand in a year.

Baltika's most successful and youthful brand, Monton, is represented in stores in its home market in the Baltic region: Estonia, Latvia and Lithuania, and, via a network of franchise partners, in Russia, Ukraine, Belarus and Spain. In 2016, a new Monton concept store was opened in Tartu in May, and new franchise stores in Ukraine in Kiev in July and in Zaporogie in August.

Since the beginning of 2016, Monton has strengthened its presence in one of the most well-known and oldest high-street fashion stores in Europe, Peek & Cloppenburg. While the 2016 spring-summer collection was sold in three Peek & Cloppenburg stores in Germany, since November the number of stores selling the women's collection has risen to 25 – in Germany, Austria, Czech Republic, Bulgaria, Poland, Croatia, Hungary and Romania. Monton's collections also continue to be represented at five Finnish department stores. International success has been ensured by the unique design signature, reliable quality and good fit of the collections.

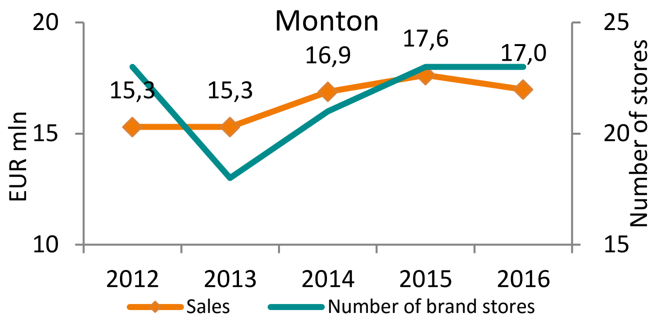
The share of wholesale and franchise sales made up 17% of Monton's 2016 sales revenue, i.e. 3,531 thousand euros, having increased by 1,740 thousand euros in a year.

The majority of Monton's sales revenue – 81% or 16,983 thousand euros – came from retail sales, which decreased by 4% in a year. In 2016, the sales of the women's collection was not as successful as expected, dropping 6%, but the strong men's collection ensured a 2% growth. Monton's biggest retail market is Estonia.

Photos: Estonian Olympic sportsmen wearing Olympic uniforms by Monton

In April 2016, Monton presented a special collection dedicated to the Rio Olympic Games. The collection intertwined elements inspired by the sea into one integral whole with chic cuts and high-quality fabrics. The Rio collection was Baltika's most successful dedicated Olympic Games collection in terms of both sales revenue and profit. The collection earned praise from Estonian athletes, Monton's retail, wholesale and e-shop customers, and international journalists. Monton has been an official supporter of the Olympic athletes for 12 years and Estonian athletes have therefore worn collections designed by Monton in Athens, Turin, Beijing, Vancouver, London, Sochi and Rio.

Monton retail sales



Revenue from continued operations

Mosaic

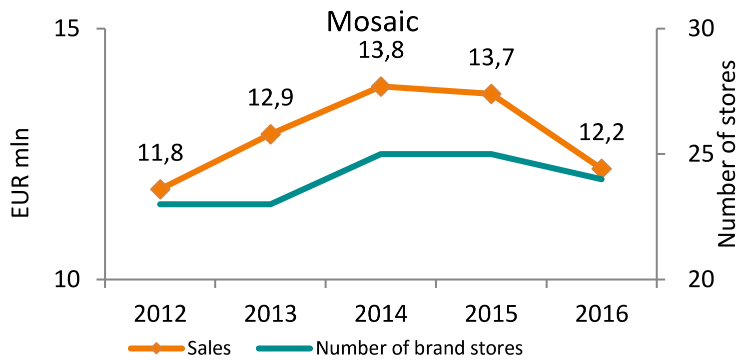
In 2016 Mosaic's sales revenue amounted to 14,401 thousand euros, having decreased by 10% i.e. 1,646 thousand euros in a year, mainly in retail and wholesale markets. Sales grew in the e-shop by 6% over the year. Tightening competition posed various challenges to Mosaic in 2016.

In Baltika Group's retail network, the Mosaic collection is represented in 24 concept stores in the Baltic countries. In addition, Mosaic is represented as a franchise store in Ukraine and Russia and in various wholesale channels: Stockmann department stores in Estonia, Latvia and Russia, and Aleksi 13 department stores in Finland. Estonia is still the biggest market for the Mosaic brand.

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

2016 was an important year for Mosaic, as the brand celebrated its 10th birthday. The anniversary year included various marketing activities, mainly in the first half of the year.

Mosaic retail sales



Revenue from continued operations

Baltman

In 2016, Baltman's total sales revenue amounted to 4,965 thousand euros, having decreased by 7% or 349 thousand euros in a year. The drop mainly came from wholesale and, to a smaller degree, retail sales. At the same time, sales in the e-shop grew 50% over the year.

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

Baltman is a prestigious lifestyle brand for men, offering stylish and classic high-quality clothing, personal service and a comfortable shopping environment. Baltman is also the oldest brand of the Baltika Group – it was created in 1991 and celebrated its 25th birthday in 2016.

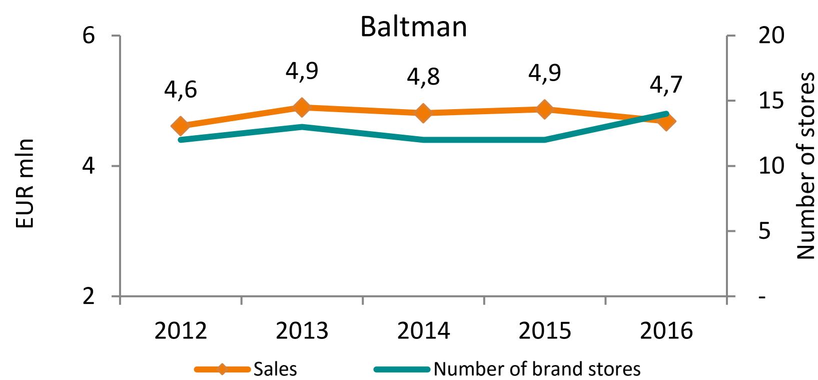
In celebration of Baltman's 25th anniversary, the brand's head designer Antonio created the autumn collection 'Born Fearless', which was presented at Tallinn Fashion Week. The way of thinking that inspired the 'Born Fearless' collection has in the past 25 years been characteristic of both the entrepreneurs who cast the foundation for the Estonian, Latvian and Lithuanian economy and Baltman's product development, as today's innovative materials in business clothes do not fear creases, mobile radiation or even heavy rain.

The use of premium-quality fabrics is an important cornerstone in creating the Baltman collections. Baltman cooperates with fabric producers of long-standing history and production experience from all over the world.

Baltman suits, for instance, are made of fabrics made by Loro Piana, Dormeuil and Marzotto Tessuti. All Baltman suits are manufactured in Estonia, at Baltika Group's production enterprise Baltika Tailor.

One of the great successes in 2016 was the opening of Baltman's new representative shop in the former Blue Inc. store at Ülemiste Shopping Centre. The new shop was launched successfully and has exceeded expectations.

Baltman retail sales



Revenue from continued operations

Ivo Nikkolo

The total sales revenue of the Ivo Nikkolo brand amounted to 4,429 thousand euros in 2016, having decreased by 6% over the year. The decrease was evident in retail sales as well as the wholesale and franchise channel. On the other hand, the Ivo Nikkolo brand has been successful in e-sales and is in third place by sales volume among the Baltika brands.

The Ivo Nikkolo brand is represented in 13 concept stores, all located in Baltika's own retail network in the Baltic region. The newest store, opened in 2016, is at the Tasku Centre in Tartu.

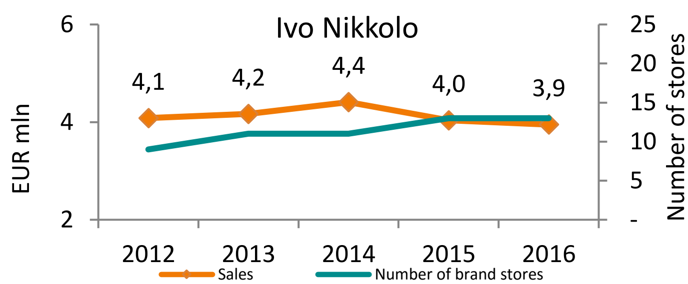
The Ivo Nikkolo collection is renowned and appreciated thanks to its original and recognisable design signature as well as for the use of high-quality and innovative fabrics. No less importance can be placed on the high fabric quality requirements of the fans of the Ivo Nikkolo brand. Ivo Nikkolo's customers are independent, value distinguished and appreciate the original design, which is playful and often includes surprising details. In 2016, a new team of designers started work at Ivo Nikkolo – Britta Laumets and Margot Vaaderpass.

Under-supply played a big role in the decrease in sales revenue in 2016, particularly in outerwear. The customers' need for warm down jackets and coats was higher than the supply. At the same time, the second quarter was successful for the brand, with linen products becoming a real hit and the sales of dresses rising to the desired level.

At the Riga Fashion Week at the end of October, Ivo Nikkolo presented its spring-summer collection for this year – 'Body lines', inspired by the female body. The success of the fashion show was measurable by various news items created by the media as well as by posts spreading in social media. A showroom for the local and international media, bloggers and stylists visiting the Fashion Week was also opened at the Galleria Riga shopping centre in the heart of Riga.

In addition, Ivo Nikkolo took part in a fashion week held in Washington at the end of September along with the best of Estonian fashion design – 22 Estonian fashion and design brands were represented. The 2016 autumn-winter collection was also presented at the Design Night held in Tallinn. The brand's aspiration to bring timeless classics and distinguished urbanism brought to the stage exclusive models, which stemmed from the principle 'less, but of higher value'.

Ivo Nikkolo retail sales



Revenue from continued operations

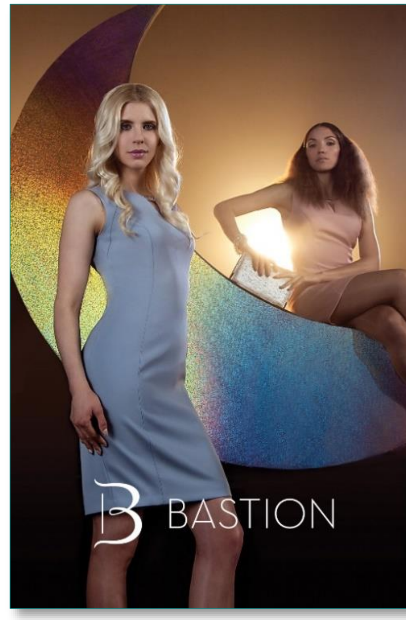
Bastion

The total sales revenue of the Bastion brand amounted to 1,970 thousand euros in 2016, having decreased by 6% in a year. Bastion is still the least represented and lowest volume brand in Baltika's brand portfolio.

As of the end of 2016, there were 9 Bastion concept stores, 7 in Estonia and 2 in Latvia. In the Baltic region, the Bastion brand was also represented in a multi-brand store in Lithuania. In 2016, a new store was opened at the Origo Centre in Riga and the Bastion store at Domina received a conceptual upgrade.

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

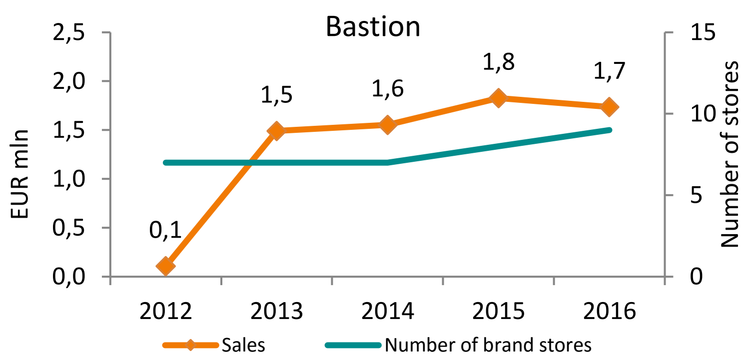
The main problems in 2016 were the following: a weak spring collection and under-supply, particularly in jackets, skirts and trousers, where purchase volumes had been intentionally cut, as well as inefficient additional premises due to which the growth of sales fell short of the growth in premises.



For the promotion faces of the 2016 autumn-winter campaign, Bastion chose members of the Estonian girl band La La Ladies, who by their essence and stage attitude represent the same values as Bastion, being extremely feminine, enchanting and celebrating every moment in life. One of the most well-known Estonian fashion bloggers Kristjaana Mere stepped in as a Lookbook model. Through such ventures, the brand salutes the beauty of Estonian women.

The special year-end collection was born in cooperation with Moët & Chandon. The collection was inspired by champagne bubbles and intended to make women feel like the true queen of a party – the bright, dazzling and shimmering fabrics would not go unnoticed in any room.

Bastion retail sales



Revenue from continued operations

6.4 WHOLESALE AND FRANCHISE

The strategic direction of finding new partners to increase sales through both wholesale and franchise contracts began with first efforts in 2012. Part of the funds from issuance will be used to further develop wholesale and franchise channel – find new partners and expand further over Europe. In year 2016 wholesale and franchise revenue increased by 21% to 1,053 thousand euros.

The objective for 2016 was to increase wholesale and franchise sales in existing markets, find new franchise partner and increase sales through international department stores chain Peek & Cloppenburg.

Sales objective set at the beginning of the year turned out to be rather challenging, especially due to the economic situation in Eastern-Europe markets and rouble volatility. Russian rouble related markets were in constant decline and the buyers' willingness and capability to purchase was low. Thus at the beginning of the year additional objective was set – to maintain existing clients and not to lose the market share in CIS countries. As at the end of the year the number of franchise stores in CIS countries was 30. During 2016 two new Monton stores were opened in Ukrainian market: one in Kiev and the other one in Zaporogie and one low profit store was closed. The number of Russian franchise stores has increased due to Russian retail market transition over to franchise partner: at the beginning of the year 8 of former retail stores were transitioned over franchise partner. However the other franchise partner closed one of the low efficiency stores in Moscow.

Wholesale and franchise revenue in 2016 was 6,029 thousand euros, increasing by 21% compared to last year. Increase in volume is mainly attributable to Russian retail market's transition over to franchise partner and increased wholesale to Peek & Cloppenburg department stores chain. As at the end of the year Monton collection was sold in 25 Peek & Cloppenburg department stores in Europe i.e. within a year the number of Monton selling department stores have increased by 22.

In addition to wholesale enlargement Baltika's franchise partners portfolio has increased as well. At the beginning of the October Baltika signed a franchise agreement with Serbian enterprise Victoria Elegans d.o.o., who opened Baltika's brands representing store Monton AndMore in Novi Sad Serbia on 8th of March 2017. Monton AndMore is a Baltika's new store concept to increase international sales and where in addition to Monton other Baltika's brands are represented as well. Serbian Monton AndMore store will initially sell Monton, Mosaic and Bastion collections. At the end of the year there were 33 franchise stores, forming 26% of total stores portfolio.

If in previous years Mosaic has had the largest volume of wholesale and franchise sales then in 2016 due to Russian retail sales transition over to franchise sales and due to successful cooperation with Peek & Cloppenburg department stores Monton has taken the leading position in wholesale and franchise sales. Monton share of wholesale and franchise sales was 59%.

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

6.5 E-STORE

In 2016 the growth of e-store Andmorefashion.com, that covers all five of Baltika's brands, was continually fast. E-store has an important role also in retail by supporting Baltika's brands stores as a way of pre-shopping. Over the year 1,200,000 customers from more than 70 countries visited Andmorefashion.com website. E-store was mostly visited by women (87% from visitors) in ages from 25 to 34 (37% from visitors).

Over the year improvements to e-store functionality and speed were made, one new delivery system was added in a form of DPD courier, and changes in e-store photo-language were made. Also from July 2016 Monton and Mosaic products are available in Amazon.de website, which is visited by more than 30 million visitors in a month.

In a year total e-store revenue was 1,063 thousand euros (increase of 9% compared to 2015), from which Monton products formed 33%, 27% Mosaic, 22% Ivo Nikkolo, 13% Bastion and 5% Baltman. Most popular product departments were cardigans and dresses, of which 6,300 and 5,200 pieces were sold respectively.

E-store is able to supply in total 44 countries. In 2016 17,211 orders were made in e-store and delivered to 35 different countries. Baltic countries formed a largest portion of sales: Estonia 56%, Latvia 16%, Lithuania 14%. 3% of sales formed Russia and 5% Finland.

In 2017 the objective is to widen the Click&Collect service to other markets and thereby continually increase integration of e-store and stores. Also the objective is to improve e-store logistics process to offer clients faster service and improve user experience on different devices.

6.6 FINANCIAL PERFORMANCE

The company's gross profit margin in the first quarter in 2017 was 48.8%, which is 1.8 percentage points lower than the 50.6% margin in the same period last year. Retail gross profit margin decreased due to the change in sales campaign period (from April to March). The quarterly gross profit was 5,250 thousand euros, which is 61 thousand euros less than last year's comparative result.

Distribution expense in the first quarter in 2017 was 5,059 thousand euros, increasing 1% compared to the same period last year. Expense has grown in the head-office as well in retail markets. Increase in expense is mainly attributable to increased sales area in Baltic retail markets. If distribution expense has increased in first quarter then general and administrative expense has decreased by 2% and was 659 thousand euros. The distribution and general expense ratio to revenue in the quarter was 53.2% i.e. within year the costs ratio to revenue has decreased by 0.8 percentage points.

Other operating net expense in the first quarter in 2017 was 2 thousand euros and the operating loss was 470 thousand euros. In same period last year the operating loss was 384 thousand euros.

The net financial expense in the first quarter in 2017 was 120 thousand euros, which is 11 thousand euros more than in the same period last year.

The first quarter in 2017 resulted in a net loss in the amount of 590 thousand euros. Net loss in the same period in the previous year was 493 thousand euros.

Although the exits from the Ukrainian and Russian markets brought significant costs to the company, which were among the biggest reasons for the losses in 2014 and 2015 financial year Baltika Group managed, with a number of other significant changes (in inventory management and collection development), to create a business model that allows for profitable growth and uses multi-channel sales by the beginning of 2017: the historically profitable Baltic retail market in combination with the fast-growing potential of wholesale, franchising and e-commerce trends. Baltika Group's full year of 2016 resulted in net profit of 177 thousand euros, the comparative result in last year from continued operations was a loss in the amount of 844 thousand euros and with discontinued operations net loss in the amount of 6,359 thousand euros.

6.7 FINANCIAL POSITION

As at 31 March 2017, Baltika Group inventories totalled 11,090 thousand euros, decreasing 6 thousand euros compared to last year-end. Goods and goods purchased for resale inventories have increased by 2% i.e. 189 thousand euros. At the same time fabrics and accessories inventories have decreased by 398 thousand euros i.e. 2%. Compared to same seasonal state on 31 March last year inventories have increased by 542 thousand euros. The increase is mainly attributable to goods and goods purchased for resale inventories – increase of 7%. Fabrics and accessories inventories have decreased by 4%.

As at 31 March 2017 the total borrowings amounted to 8,873 thousand euros, which signifies together with the usage of overdraft facility increase of 1,824 thousand euros compared to the last year-end (31 December 2016: 7,031 thousand euros). The increase in borrowings is attributable to increase in usage of overdraft due to the seasonal business cycle.

In the first quarter purchase of fixed assets was made in the amount of 183 thousand euros and deprecation was 317 thousand euros. Property, plant and equipment and intangible assets at residual value decreased by 164 thousand euros compared to last year-end and were 4,534 thousand euros.

The first quarter operating activities cash-flow was -1,499 thousand euros (I quarter 2016: -1,629 thousand euros). Input to the investment activity was 155 thousand euros (I quarter 2016: 309 thousand euros). Bank loan repayments were made in the amount of 257 thousand euros. Group's first quarter total cash flow was 186 thousand euros (I quarter 2016: -208 thousand euros).

As at 31 March 2017 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 8,268 thousand euros, which is 1,656 thousand euros more than at the end of last year. The net debt to equity ratio was 189% as at 31 March 2017. Compared to same seasonal business cycle on 31 March 2016 Group's net debt to equity ratio is on comparable level (31 March 2016: 182%). Compared to last year end, 31 December 2016, the net debt to equity ratio has deteriorated mainly due to increase in borrowings (increased usage of overdraft) which is usual in first quarter. Current ratio has deteriorated in comparable states due to the fact that part of the non-current liabilities have turn into current liabilities (J-Bonds repayment date is in summer of 2017 and the intention is to refinance these bonds by issuing new convertible bonds).

6.8 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment consists mainly of retail network related fixed assets.

Property, plant and equipment at net book value

in EUR thousands	31.03.2017 Unaudited	31.12.2016 audited
Buildings and structures	1,071	1,092
Machinery and equipment	386	408
Other fixtures	1,444	1,522
Total	**2,901**	**3,022**

Source: Consolidated Financial Statements

Building and structures by location:

in EUR thousands	31 March 2017
Estonia	323
Latvia	239
Lithuania	509
Total	**1,071**

6.9 FINANCIAL LIABILITIES

Borrowings

in EUR thousands	31 March 2017 Unaudited	31 Dec 2016 audited
Current borrowings		
Current portion of non-current bank loans	935	1,019
Current bank loans	3,766	1,620
Current portion of finance lease liabilities	195	196
Convertible bonds, share options	3,000	3,000
Total	**7,896**	**5,835**
Non-current borrowings		
Non-current bank loans	875	1,046
Non-current finance lease liabilities	102	150
Total	**977**	**1,196**
Total borrowings	**8,873**	**7,031**

In July 2016 an annex under the existing facility agreement was signed, which extended the other overdraft´s repayment date until July 2017 (in the amount of 3,000 thousand euros). With the same annex the existing loan repayment period was extended by 20 months and an additional investment loan in the amount of 2,000 thousand euros was taken, which will be repaid during the next 4 years. In the third quarter of 2016 1,500 thousand euros from the new loan was taken into use.

Financial liabilities by maturity at 31 March 2017, unaudited

in EUR thousands	Carrying amount	Undiscounted cash flows[1] 1-12 months	1-5 years	Total
Loans	5,576	4,848	927	5,775
Finance lease liabilities	297	201	105	306
Convertible bonds	3,000	3,624	0	3,624
Trade payables	2,543	2,543	0	2,543
Other financial liabilities	55	55	0	55
Total	**11,471**	**11,271**	**1,032**	**12,303**

Financial liabilities by maturity at 31 December 2016, audited

in EUR thousands	Carrying amount	Undiscounted cash flows[1] 1-12 months	1-5 years	Total
Loans	3,685	2,807	1,110	3,917
Finance lease liabilities	346	202	155	357
Convertible bonds	3,000	3,624	0	3,624
Trade payables	3,259	3,259	0	3,259
Other financial liabilities	30	30	0	30
Total	**10,320**	**9,922**	**1,265**	**11,187**

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

Source: Consolidated Financial Statements

Net gearing ratio

in EUR thousands	31 March 2017 Unaudited	31 Dec 2016 audited
Interest carrying borrowings	8,873	7,031
Cash and bank	-605	-419
Net debt	8,268	6,612
Total equity	4,375	4,965
Total capital to net debt ratio	**189%**	**133%**

Source: Consolidated Financial Statements

The Group's long term goal is to maintain the net gearing ratio under 50%. At the end of the reporting period, at 31 March 2017, the ratio was 189%. In the end of 2016 the ratio was 133%. The deterioration of the ratio compared to the last quarter is influenced by the seasonality of the business characteristic to the first quarter and the resulting increased borrowings: compared to the first quarter last year, the ratio has remained stable (ratio at 31 Mar 2016: 182%). 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.

Operating leases

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

The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements that stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation.

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

in EUR thousands	31 Dec 2016	31 Dec 2015
Up to 1 year	5,472	4,068
1-5 years	10,622	8,491
Over 5 years	0	920
Total	**16,094**	**13,479**

6.10 INVESTMENTS

The Company's investment activities can be divided into two: retail network (all investments related to stores) and all other. The volume of the investments depends on strategic decisions and financing opportunities.

Property, plant and equipment

in EUR thousands	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments	Total
31 December 2015					
Acquisition cost	**2,452**	**4,736**	**4,491**	**1**	**11,680**
Accumulated depreciation	-1,545	-4,269	-2,956	0	-8,770
Net book amount	**907**	**467**	**1,535**	**1**	**2,910**
Additions	544	91	589	0	1,224
Disposals, impairments	-20	0	-87	0	-107
Depreciation	-339	-151	-514	0	-1,004
Reclassifications	0	1	-1	-1	-1
31 December 2016					
Acquisition cost	**2,838**	**4,718**	**4,813**	**0**	**12,369**
Accumulated depreciation	-1,746	-4,310	-3,291	0	-9,347
Net book amount	**1,092**	**408**	**1,522**	**0**	**3,022**

Investments by geographic region

in EUR thousands	2016
Estonia	402
Retail	302
Production and headquaters	100
Latvia	345
Lithuania	477
Total	**1,224**

Investments have been financed through own financing, bank loans and financial leases.

Investments into retail network totalled 1,124 thousand euros in 2016, which is on the same level as last year. Baltika invested, in different amounts, into more than 20 stores. That includes opening of 4 new stores (from which 2 under new concept). Group's property, plant and equipment additions in 2016 amounted to 1,224 thousand euros. Depreciation in 2016 was 1,004 thousand euros and in total, the fixed assets residual value increased by 112 thousand euros, compared to last year-end.

Investing decisions

All investment decisions are centrally approved. The allocation of funds for proposals received is made based on return on investment analysis. For retail investments there is a maximum payback time requirement for the investments to be considered. Renovation of existing stores and investments into stores with faster payback period are prioritised when making the allocation of funds for investments. As the investment decisions need to be made in rapidly changing environment and are highly dependable on the funds available, the Group has no fixed investment policy.

Investment plan

In addition to regular amounts invested in own retail system the Company's strategical growth directions during the coming years (2017-2019) are mainly directed to export through wholesale, franchise and e-commerce. Franchise has been chosen as the main growth trigger, as this business model allows the better use of Baltika's strengths – strong brand portfolio, strong and diverse store concept portfolio and retail operating experience, in addition franchise channel risks are more easily preserved. To accelerate the franchise channel growth the franchise client's value proposition has been described, to enter new franchise markets Baltika has a cooperation with a consultant and also Baltika participates in various export platforms. The main markets on focus are Central Europe and Balkans. In addition to entering to new markets plans to strengthen cooperation with existing partners in Russia, Ukraine, Belarus, Serbia and Spain is in works and this through operative and marketing cooperation.

In wholesale channel actions are directed to enter new department stores and store chains. The main target markets for wholesale are Germany, Finland and Russia – markets where Baltika's brands already have partial reputation and business volume from where it is possible to increase volumes and to gain new clients. In wholesale the focus is on cooperation with agents who have established contacts network and brand sales in showrooms and fairs. Both, showrooms and fairs are rather expensive and are sales channels with long payback period, but at the same time these are the best platforms to find new clients. With expansion of client base the client maintenance process need to be improved and made more efficient to ensure clients satisfaction with products and services.

To support Company's actions to extend export, Baltika has joined with several different Estonian enterprises containing export platforms, for example Tallinn Design House which is curated by Loomeinkubaator, also export program "Missioon Saksamaa" ("Mission Germany") in cooperation with Marketing Instituut and EAS (Enterprise Estonia).

To support fast growing e-commerce the plan is to exchange e-store's Andmorefashion.com platform. Also e-store has an important role in growing export – selling Baltika's brands through third parties e-stores and developing Baltika's e-store Andmorefashion.com through partners.

In addition to refinance of bonds issued in 2014, the purpose of the Offering is to obtain additional financing for carrying out the investment plan.

6.11 MATERIAL CONTRACTS

On 27th of July 2016 AS Swedbank and AS Baltika signed an agreement amendment according to which Baltika will get an additional investment loan of 2 million euros during a one-year period from the amendment date. The repayment period for the additional amount is 4 years. Agreement amendment contains also a 20-month extension for the repayment period of the existing loan in the amount of 1 million euros. In the third quarter of 2016 1.5 million euros from the new loan was taken into use and at the beginning of 2017 the remaining 0.5 million euros was taken into use.

In addition to the bank loan agreement AS Baltika has executed other important agreements in previous years:

- At the beginning of October 2016 Baltika signed a franchise agreement with Serbian enterprise Victoria Elegans d.o.o., who opened the first Monton AndMore multibrand store in Novi Sad, Serbia on 8th of March 2017.
- On 22nd of February 2016 Baltika signed an agreement with OÜ Ellipse Group to sell 100% of shares of Russia's retail operating company OOO Olivia that owns subsidiaries OOO Stelsing and OOO Plazma. OÜ Ellipse Group will continue to cooperate with Baltika as franchise partner and on 22 February cooperation agreement was signed for the next five years. The price received for the Russian entities was 463 thousand euros and payment schedule was agreed for 5 years, depending on Russian entities financial results.
- At the end of 2015 OÜ Baltman, a subsidiary of Baltika Retail OÜ acquired 100% of shares of SIA Baltika Latvija and UAB Baltika Lietuva that were owned by Baltika Retail OÜ. As a result of the restructure OÜ Baltman is in control of Baltic retail operations. As the business activity continues in the same volume, this transaction did not have an effect on AS Baltika's consolidated profit, assets or liabilities.
- On 20 February 2015, OÜ Baltika TP and OÜ Baltika Retail executed a merger agreement according to which OÜ Baltika Retail was the acquiring company and OÜ Baltika TP the company merged.

7 SUPERVISORY BOARD AND MANAGEMENT BOARD

Pursuant to the provisions of the Estonian Commercial Code and the Company's Articles of Association, the control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Board (the "Supervisory Board") and the Management Board (the "Management Board").

7.1 SUPERVISORY BOARD

The Supervisory Board is responsible for planning the business activities of the Company, organising the management of the Company and supervising the activities of the Management Board. The Supervisory Board reports to the General Meeting of Shareholders.

According to the Company's Articles of Association, the Supervisory Board comprises of three (3) to seven (7) members. Members of the Supervisory Board shall be elected by the General Meeting for three (3) years. The members of the Supervisory Board shall elect a chairman from among themselves who shall organise the activities of the Supervisory Board. Meetings of the Supervisory Board shall be held when necessary but not less frequently than once every three (3) months.

According to the Company's Articles of Association, the Supervisory Board has the competence to:

1) Determine the agenda of the General Meeting;
2) Review the annual report and prepare a report concerning it which shall be presented to the General Meeting of Shareholders;
3) Review, once every four months, the overview of the economic activity and economic situation of the Company presented by the Management Board;
4) Deliver to the General Meeting of Shareholders a proposal in respect of each item on the agenda;
5) Elect and recall members of the Management Board;
6) Determine the amount and procedure for the payment of remuneration to the members of the Management Board;
7) Appoint and remove a procurator;
8) Approve the annual budget of the Company;
9) Decide on the conclusion of a transaction between the Company and a member of the Management Board of the Company, determine the terms and conditions of this transaction and decide on having legal disputes with Management Board members and appoint a representative of the Company in such transaction or legal dispute.

A meeting of the Supervisory Board shall have a quorum if more than one half of the members of the Supervisory Board participate. A resolution of the Supervisory Board shall be adopted if more than one half of the members of the Supervisory Board who participate in the meeting vote in favour. Each member of the Supervisory Board shall have one vote. In 2016 there were five (5) Supervisory Board meetings and most of the Supervisory Board members attended the meetings.

The Supervisory Board of Baltika has been elected by the ordinary general meetings of shareholders on 27 April 2015 and it comprises of five (5) members.

At the date of this Prospectus the members of the Supervisory Board are:

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 of KJK Invest Oy,
Member of the Management Board of Amiraali Invest Oy.
Baltika shares 31 March 2017: 0

TIINA MÕIS

Member of the Supervisory Board since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Board of AS LHV Pank and AS LHV Group,
Baltika shares 31 March 2017: 977,837 shares (on AS Genteel account)

REET SAKS

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

LAURI KUSTAA ÄIMÄ

Member of the Supervisory Board since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Board of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Board of KJK Invest Oy,
Member of the Board of Kaima Capital Eesti OÜ,
Member of the Board of Aurejärvi Varainhoito Oy,
Member of the Board of UAB Malsena Plius,
Member of the Board of UAB D Investiciju Valdymas,
Member of the Board of Bostads AB Blåklinten Oy,
Member of the Board of KJK Serbian Holdings BV,
Member of the Board of AS Baltic Mill,
Member of the Board of KJK Investicije d.o.o,
Member of the Board of KJK Investicije 2 d.o.o,

Member of the Board of KJK Investicije 3 d.o.o,
Member of the Board of KJK Investicije 4 d.o.o,
Member of the Board of KJK Investicije 5 d.o.o,
Member of the Board of KJK Investicije 6 d.o.o,
Member of the Board of KJK Investicije 7 d.o.o,
Vice-chairman of the Board of AAS BAN,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Management Board of KJK Fund II SICAV-SIF,
Chairman of the Supervisory Board of Salva Kindlustuse AS,
Chairman of the Supervisory Board of AS PRFoods,
Member of the Supervisory Board of Managetrade OÜ,
Member of the Supervisory Board of Toode AS,
Chairman of the Supervisory Board of JSC Rigas Dzirnavnieks,
Chairman of the Board of Directors, KJK Management SA,
Chairman of the Board of Directors, KJK Capital Oy.

Baltika shares held on 31 March 2017: 24,590 shares (on Kaima Capital Eesti OÜ account)

VALDO KALM
Member of the Supervisory Board since 20.04.2012
Chairman of the Board of Port of Tallinn
Previous occupation: Chairman of the Board of AS EMT
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Member of the Management Board of OÜ VK CO
Baltika shares 31 March 2017: 0

The information in this Prospectus regarding the members of the Supervisory Board and Management Board is an indication of the principal activities performed by them outside the Company where these are significant with respect to the Company.

7.2 MANAGEMENT BOARD

The Management Board manages the Company's daily business operations. According to the Company's Articles of Association, the Management Board is the management body of the Company which represents and directs everyday activities of the Company. The Board shall adopt all resolutions concerning activities of the Company and shall independently execute all transactions which are not placed within the competence of the general meeting of shareholders or the Supervisory Board by the law and Articles of Association. The Management Board shall consist of two (2) to five (5) members who shall be elected by the Supervisory Board for three (3) years. The members of the Management Board shall elect a chairman of the Management Board from among themselves. The chairman of the Management Board shall organise work of the Board and direct everyday activities of the Company pursuant to law and according to the requirements of the Articles of Association.

The Management Board of Baltika currently comprises of three (3) members. As at the date of this Prospectus, the Chairman of the Management Board is Meelis Milder.

At the date of this Prospectus the members of the Management Board are:

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 31 March 2017: 1,013,735 shares[1]

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 March 2017: 0

INGRID KORMIK

Member of the Management Board, Head of Purchasing and Supply Chain
Member of the Board since 2017, in the Group since 2001
Previous occupation: Supply Chain manager at Tallinna Kaubamaja Group
Master of Business Administration, Tallinn University of Technology,
Baltika shares 31 March 2017: 0

[1]Management Board member holds additionally the shares of Baltika through the holding company OÜ BMIG (see the section 8.2 "Shareholders") – OÜ BMIG owns 11.64% shares of Baltika.

Additional information on members of Supervisory Board and Management Board

There are no family relationships among any members of the Management Board or Supervisory Board.

No member of the Supervisory Board or the Management Board has had any interest in transactions effected by the Company or its subsidiaries, which are unusual in their nature or which contain unusual terms or conditions, during the financial years ended on 31 December 2016, 2015. The Company is not aware of any potential conflicts of interest between the duties of the above mentioned persons to the Company and their private interests or other duties.

The Company is not aware of any convictions in relation to fraudulent offences or any official public incrimination and/or sanctions with respect to the members of its Supervisory Board or Management Board or other key executives.

The Company is not aware of any bankruptcy proceedings initiated against the members of its Supervisory Board or Management Board.

No member of the Supervisory Board or Management Board has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of the Company or from acting in the management or conduct of the affairs of any other company.

Compensation for the members of the Management Board and Supervisory Board

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, Baltika discloses the total amount of remuneration expense to members of the Supervisory Board and Management Board. In 2016, the figure amounted to 267 thousand euros. The contractual severance benefits of members of the Management Board range from 3- to 18-fold monthly remuneration depending on the period of service.

	2016	**2015**
Salaries of the members of the Management Board	253	224
Remuneration of the members of the Supervisory Board	14	14
Total	**267**	**238**

As at 31 December 2016, there were two Management Board Members and as at 31 December 2015 there were three Management Board Members. As at 31 December 2016 and 31 December 2015, there were five Supervisory Board Members.

Members of the Management Board can receive one funded pension contribution of up to one month's salary per year, provided after they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the company's internal rules.

Share option program that was approved on 27 April 2015 Annual General Meeting of Shareholders was issued to members of the Management Board. The purpose of the Company share option program is to motivate the Company's Management Board members by including them among the Company's shareholders in order to ensure consistency in the Company's management and improvement of the Company's performance, and increase of the value of the shares and to enable the Company's executive management to benefit from their contribution to Company's share value growth. Under the share option program the Company could issue in total up to 1,000,000 (one million) share options. Every share option grants the option holder the right to acquire 1 (one) share of the Company. The eligible persons of this share option program were the members of the Management Board of the Company who were the members of the Management Board in 2015 - 2016. One Management Board member, being an eligible person of the share option, was entitled to receive no more than 200,000 (two hundred thousand) share options, except the chairman of the Management Board Meelis Milder, who was entitled to receive up to 400,000 (four hundred thousand) share options. The eligible person of this share option has the right to exercise the issued option after three year period following the issue of the option (signing the Option Agreement), whereas the share options can be exercised within two years after the eligible person to the share option received the right to exercise the share option in accordance with Share Option Conditions. The price for exercising the share option shall be 0.20 euro per one share.

Transactions with related parties

Purchases (in EUR thousand)	**2016**	**2015**
Services from entities under the control or significant influence of the members of the Management Board and Supervisory Board	24	355
Total	**24**	**355**

Sales (in EUR thousand)	**2016**	**2015**
Goods to the members of the Management Board and Supervisory Board	0	7
Total	**0**	**7**

In 2016, AS Baltika bought mostly management services from the related parties. In 2015, AS Baltika bought mostly management, communication and other services from the related parties.

Balances with related parties

In EUR thousand	31 Dec 2016	31 Dec 2015
Other current loans	2,973	2,804
Trade payables	0	17
Total	**2,973**	**2,821**

All transactions in 2016 as well as in 2015 and balances with related parties as at 31 December 2016 and 31 December 2015 were with entities under the control or significant influence of the members of the Management Board and Supervisory Board.

7.3 SHAREHOLDING OF THE MANAGEMENT BOARD MEMBERS

The members of the Management Board hold as of 31 March 2017 the ordinary shares of the Company with voting rights as follows:

	Ordinary shares (listed)	
	No of shares	**Shareholding**
OÜ BMIG	4,750,033	11.64%
Meelis Milder	1,013,735	2.48%
Immediate family members of Management Board members	334,183	0.82%
Total OÜ BMIG and Management Board members	**6,097,951**	**14.95%**
Baltika share capital	**40,794,850**	**100%**

Source: the Company

According to the Management Board’s knowledge no additional shareholdings above 5% are held by the Management Board members directly or indirectly through nominee account.

8 SHARE CAPITAL AND OWNERSHIP STRUCTURE

8.1 GENERAL INFORMATION ON BALTIKA SHARES

Baltika has 40,794,850 shares. The share capital is 8,158,970 euros. The share grants its owner the right to participate in the general meeting of shareholders of the Company, in the distribution of profit and, upon dissolution of the Company, in the distribution of the remaining assets, as well as other rights prescribed by law or the Articles of Association. The share grants its owner one (1) vote at the general meeting of shareholders of the Company. The shares have equal voting rights and equal right to receive dividends.

Information on listed ordinary shares

NASDAQ OMX symbol: BLT1T
ISIN: EE3100003609
Minimum trading quantity: 1
Number of shares: 40,794,850
Nominal value of shares: 0.20 euro
Voting rights per share: 1 vote

8.2 CONVERTIBLE BONDS AND CHANGES IN THE SHARE CAPITAL

Changes in share capital

Date	Issue type	Issue price, EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31/12/2009				**22,644,850**	**14,473**	**67**
21/06/2010	Issue of ordinary shares	0.77	8,850,000	**31,494,850**	20,129	1,131
31/12/2010				**31,494,850**	**20,129**	**1,198**
30/05/2011	Share nominal conversion to euros				1,918	-1,377
31/05/2011	Cancellation of preference shares		-4,000,000	**27,494,850**	-2,556	**0**
31/05/2011	Issue of ordinary shares		4,000,000	**31,494,850**	2,556	**0**
03/08/2011	Issue of ordinary shares	0.7	4,300,000	**35,794,850**	3,010	0
31/12/2011				**35,794,850**	**25,057**	**89**
11.05.0212	Decrease of share nominal value				-17,898	-89
31/12/2012				**35,794,850**	**7,159**	**63**
16/07/2013	Conversion of H-bonds to shares	0.3	5,000,000	**40,794,850**	1,000	496
31/12/2013				**40,794,850**	**8,159**	**684**
31/12/2014				**40,794,850**	**8,159**	**809**
31/12/2015				**40,794,850**	**8,159**	**496**
31/12/2016				**40,794,850**	**8,159**	**496**
31/03/2017				**40,794,850**	**8,159**	**496**

Source: the Company

Convertible bonds

The annual general meeting of shareholders held on 28 April 2014 decided to issue 600 convertible bonds (J-bond) with the nominal value of 2,000 euros. Each bond gives its owner the right to subscribe 10,000 share of the Company with a nominal value of 0.20 euros. The share subscription price is 0.5 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 15 July 2017 until 30 July 2017.

Therefore the share capital of Baltika may increase by 1,200,000 euros, which is 14.7% of current share capital.

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

Source: the Company

Changes in share capital from convertible instruments outstanding

Date	Issue type	Issue price EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.03.2017				**40,794,850**	**8,159**	**496**
31.07.2017*	Conversion of J-Bonds	0.5	6,000,000	**46,794,850**	**9,359**	**2,296**

*Potential transaction without other transactions

8.3 SHAREHOLDERS

The largest shareholder of Baltika is KJK Fund, Sicav-SIF (shares on ING Luxembourg S.A. nominee account), which owned 30.86% of ordinary shares as at 31 March 2017.

As at 31 March 2017 the members of the Management Board controlled directly or through companies under their control 14.95% of ordinary shares of Baltika.

No shares are held by or on behalf of Baltika or any of the companies in the Group.

Major shareholders as at 31 March 2017

	Number of shares	Holding
1. ING Luxembourg S.A.	12,590,914	30.86%
2. Clearstream Banking Luxembourg S.A. clients	5,727,710	14.04%
3. BMIG OÜ*	4,750,033	11.64%
4. SKANDINAVISKA ENSKILDA BANKEN S.A.	3,407,305	8.35%
5. Svenska Handelsbanken clients	1,200,000	2.94%
6. Members of Management and Supervisory Boards and their immediate family members		
Meelis Milder	1,013,735	2.48%
Persons related to members of Management Board	334,183	0.82%
Entities connected to Supervisory Board not mentioned above	1,002,427	2.46%
7. Other shareholders	10,768,543	26.41%
Total	**40,794,850**	**100.00%**

*BMIG OÜ is controlled by member of Management Board
Underlying source: the ECRS

Source: Consolidated Financial Statements

8.4 RIGHTS ATTACHED TO THE SHARES

Pursuant to the Estonian Commercial Code, shareholders exercise their power to decide on corporate matters at general meetings of shareholders. A general meeting is competent to:

1) amend the articles of association;
2) increase and reduce share capital;

3) issue convertible bonds;
4) elect and remove members of the supervisory board;
5) elect an auditor;
6) designate a special audit;
7) approve the annual report and distribute profit;
8) decide on dissolution, merger, division or transformation of the public limited company;
9) decide on conclusion and terms and conditions of transactions with the members of the supervisory board, decide on the conduct of legal disputes with the members of the management board or supervisory board, and appointment of the representative of the public limited company in such transactions and disputes;
10) decide on other matters placed in the competence of the general meeting by law.

A general meeting may adopt resolutions on other matters related to the activities of the public limited company on the demand of the Management Board or Supervisory Board. The shareholders shall be jointly liable in the same manner as members of the Management Board or Supervisory Board for damage caused by resolutions adopted under such conditions on the demand of the Management Board or Supervisory Board.

The following general overview of regulation is provided with respect to the listed companies.

Pursuant to Article 291 of the Commercial Code, the ordinary general meeting of shareholders must be held within six months after the end of the financial year. The management board can convene an extraordinary general meeting of shareholders when needed. The management board must convene an extraordinary meeting pursuant to Article 292 of the Commercial Code, if the net assets of the public limited company are less than one-half of the share capital or less than the amount of share capital specified in § 222 of the Commercial Code or other minimum amount of share capital provided by law or if required by the supervisory board, auditor or shareholder, representing at least 1/20 of the share capital of the company or if it is clearly necessary in the interests of the company. If the management board fails to convene the extraordinary general meeting of shareholders within one month of the receipt of the request, the persons who requested the meeting are entitled to convene an extraordinary general meeting themselves.

Pursuant to Article 294 of the Commercial Code, notices to convene the ordinary general meeting of shareholders or an extraordinary general meeting of shareholders must be given no later than three weeks prior to the meeting. Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the shareholders' register of the company as maintained in the ECRS). If the company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such address. Notices may be sent via regular mail, fax or e-mail, in case it is provided that the letter, fax or e-mail is accompanied by a notice requesting the recipient to immediately confirm the receipt to the management board. However, if the company has more than 50 shareholders, there is no need to send the notice to shareholders and respective notice may be published in at least one national daily newspaper in Estonia. Furthermore, a listed company is obliged to publish the respective notices in the manner that allows quick access by using means of communication and the aforementioned can presumably be deemed to be effective to publish information within the European Union. A listed company must also publish the notice on its Internet homepage. Pursuant to Article 294 of the Commercial Code, the notice shall include, inter alia, the place and time of the general meeting, the agenda for the same general meeting and the place where it is possible to access documents submitted to the general meeting of shareholders. Pursuant to Article 295 of the Commercial Code, a general meeting shall be held at the seat of the public limited company unless the articles of association prescribe otherwise.

The Supervisory Board of the company determines the agenda for the general meeting of shareholders. If, however, the shareholders or the auditor call a general meeting of shareholders, they also set the agenda for it. The management board or one or more shareholders whose shares represent at least 1/20 of the share capital of the company is entitled to request items be included on the agenda for the ordinary general meeting of shareholders. An issue which is initially not on the agenda of a general meeting may be included on the agenda with the consent of at least 9/10 of the shareholders who participate in the general meeting if their shares represent at least 2/3 of the share capital. Pursuant to Article 296 of the Commercial Code, if the requirements of law or of the articles of association for calling a general meeting are materially violated, the general meeting shall not have the right to adopt resolutions except if all the shareholders participate in or all the shareholders are represented at the general meeting. Decisions made at such meeting are void unless the shareholders with respect to whom the procedure for calling the meeting was violated approve of the decisions.

The organ or person, on whose initiative the general meeting was convened, must provide the draft decision for each item in the agenda for such general meeting.

In order to have the right to attend and vote with respect to listed company's general meeting of shareholders, a shareholder has to be on the shareholders list on the cut-off date, which in Baltika is the same date as the date of the general meeting as determined so in the articles of association. In general the shareholders entitled to take part in a general meeting shall be determined as at seven days before the date of the general meeting. A shareholder may appoint his representative, whose authorisation to participate at a general meeting must be documented in writing. Notwithstanding the aforesaid, the participation of a representative shall not deprive the shareholder of the right to participate in the general meeting. Voting rights may not be exercised by a shareholder whose shares are registered in the name of a nominee unless the nominee account holder has given a power of attorney to the shareholder.

A general meeting of shareholders is capable of passing resolutions in case more than half of the votes represented by shares held by shareholders are present at the meeting, unless higher threshold is set forth with the articles of association, The Company has not set higher threshold for the quorum. If the meeting has no quorum, the Management Board must call not earlier than seven days after the previous meeting and not later than three weeks after the previous meeting a new general meeting of shareholders which shall take place not earlier than three weeks from the notice, and the next meeting shall be subject to no quorum requirements.

Voting rights

The Company has one class of ordinary shares with the nominal value of 0.20 euros. Each share shall entitle the shareholder to one vote. At a general meeting of shareholders the resolutions require the approval of a majority of the votes represented at the meeting. However, certain resolutions, such as amending the articles of association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division, reorganisation or liquidation of the company, require a majority of 2/3 of the votes represented at the general meeting of shareholders. Any issuance of new shares with waiving the existing shareholders' pre-emptive subscription rights requires a majority of at least 3/4 of the votes represented at the meeting. According to Article 235 of the Commercial Code, the rights attached to any class of shares may be amended only by a decision of the general meeting of shareholders which is supported by a qualified majority of 4/5 of all votes attaching to the shares of the company and at least 9/10 of the shareholders whose shares belong to such class of which the rights are amended. Pursuant to Article 237 of the Commercial Code, the consent of all holders of preference shares is required to adopt a resolution on cancellation or amendment of the preference of preference shares, or on cancellation of preference shares. Upon cancellation of the preferential right, the holders of preference shares shall acquire the right to vote.

Pre-emptive right of shareholder

Under the Estonian Commercial Code, a shareholder has a pre-emptive right to subscribe for the new shares in proportion to the sum of the nominal value or book value of the shareholder’s shares. The pre-emptive right of the shareholders may be barred by a resolution of the general meeting which receives at least three-quarters of the votes represented at the general meeting. A shareholder may transfer the shareholder's pre-emptive right to subscribe for shares under the same terms and conditions as a transfer of shares. If a public limited company has several classes of shares and new shares of one or some classes are issued, the holders of the corresponding classes of shares have a pre-emptive right in the subscription of such shares before other shareholders. The management board shall send the resolution of the general meeting to the shareholders who have the pre-emptive right of subscription and who did not participate in the general meeting. The term for subscription of shares with a pre-emptive right shall be two weeks from the adoption of a resolution on increase of share capital unless the resolution of the general meeting prescribes a longer term.

A public limited company may issue, for a conditional increase of the share capital, bonds by a resolution of the general meeting, the holders of which have the right to convert their bonds to shares (convertible bond). If the public limited company issues convertible bonds, the shareholders have the pre-emptive right to subscribe for as upon the increase of the share capital.

Rights to dividends

Under the Estonian Commercial Code, a general meeting of shareholders may authorise the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the management board. The supervisory board has the right to make changes to the proposal of the management board before submission to the general meeting. Dividends, if any, should be paid in cash. Upon the consent of the shareholders, dividends may also be paid in other property.

The shareholders decide annually the dividend amount and procedure of payment on the basis of the approved annual report. As a general rule, no interim dividends may be paid in respect of a financial period for which an annual report (together with the audited financial statements) has not yet been approved by the general meeting. However, the articles of association may provide that the management board has the right, upon the consent of the supervisory board, to make advance payments to the shareholders on account of the estimated profit after the end of a financial year but before the approval of the annual report, provided that such advance payments do not exceed one-half of the amount that may be distributed among shareholders. Currently the Company's Articles of Association provide for such right of the Management Board.

Dividends may only be paid out from net profit or undistributed profit from previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid to the shareholders if the net assets of the company, as recorded in the approved annual report of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law may not be distributed to the shareholders.

Dividends of companies listed on the NASDAQ OMX Tallinn are paid only to those shareholders (or their nominees) who are entered on the list of shareholders (shareholders' register) as maintained in the ECRS on the respective record date. The NASDAQ OMX Tallinn Rules provide that a listed company is required to disclose information about closing the list of shareholders (fixing the record date) at least nine trading days before the record date. If a general meeting of shareholders adopts a resolution that relates to rights attached to the shares (for example, the declaration of payment of dividends), the record date may not be fixed at an earlier date than ten trading days after the date of the relevant general meeting.

Takeover of shares

Under the Estonian Commercial Code, on the application of a shareholder whose shares represent at least 9/10 of the share capital of a public limited company (majority shareholder), the general meeting of shareholders may decide in favour of the shares belonging to the remaining shareholders of the public limited company (minority shareholders) being taken over by the majority shareholder in return for fair monetary compensation. Such an application is delivered to the management board and may not be withdrawn and its conditions may not be amended to the disadvantage of minority shareholders. The majority shareholder shall determine the amount of compensation payable to minority shareholders. The amount of compensation shall be determined on the basis of the value of the shares to be taken over that these shares had ten days prior to the date on which the notice calling the general meeting was sent out. The management board shall provide the majority shareholder with all the necessary data and documents therefor and with information. Takeover is resolved by the general meeting of shareholders and a resolution on the takeover of shares belonging to minority shareholders shall be adopted if at least 95/100 of the votes represented by shares are in favour.

8.5 DIVIDENDS

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

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

Group did not have constant capital to net gearing ratio under 50% during the financial year 2016 and up to approval of AS Baltika 2016 Annual report on 08 May 2017. Neither had the Group sufficient funds and therefore no dividends were suggested to be paid in 2017.

The issuance of Bonds proceeds are used for investing and therefore will not impact or improve the likelihood to pay dividends in the period of Bonds issuance. Should the Bond-holders decide to convert Bonds to shares the financial position and the indicators mentioned should improve.

No dividends can be paid without the consent of the bank.

9 AUDITOR, LEGAL ADVISER AND MATTERS

9.1 INDEPENDENT AUDITOR

Pursuant to the Estonian Commercial Code, the general meeting of shareholders elects the auditors. The general meeting of shareholders of 08 May 2017 elected AS PricewaterhouseCoopers, Pärnu mnt 15, Tallinn, Estonia, as the auditor of the Company for the financial years ending on 31 December 2017, 2018 and 2019.

The Consolidated Annual Financial Statements of the Group incorporated by reference into this Prospectus were audited by AS PricewaterhouseCoopers.

AS PricewaterhouseCoopers with its registered office in Tallinn (Pärnu mnt 15, 10141 Tallinn) issued an unqualified auditor’s opinion on the aforementioned financial statements.

The auditors of AS PricewaterhouseCoopers are members of the Estonian Board of Auditors.

In the period covered by the Consolidated Financial Statements included in this Prospectus, there were no events of resignation or dismissal of an auditor appointed to audit the financial statements of the Company or the Group.

9.2 LEGAL ADVISOR

The Group has used various law firms in different countries throughout the years. The main law firm whose services the Group has used over the years and who is the Company’s legal adviser related to the Bond issuance is Advokaadibüroo Ellex Raidla, located at Roosikrantsi 2, Tallinn 10119, Estonia.

9.3 LEGAL MATTERS

There have not been initiated against the Group any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering the previous 12 months which may have, or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability.

10 INFORMATION INCORPORATED BY REFERENCE

The information and documents are incorporated into this Prospectus by reference. Such information is publicly available at the website of Baltika (www.baltikagroup.com):

- the Company's Articles of Association (http://www.baltikagroup.com/wp-content/uploads/2016/03/2016-Baltika-p%C3%B5hikiri-ENG-allkirjaga.pdf)
- the Company's Interim Financial Statements for the period ended 31 March 2017 (http://www.nasdaqbaltic.com/upload/reports/blt/2017_q1_en_eur_con_00.pdf)
- the Company's Consolidated Annual Report for the year ended 31 December 2016 (http://www.nasdaqbaltic.com/upload/reports/blt/2016_ar_en_eur_con_00.pdf)

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