AS BALTIKA

2021

ANNUAL REPORT

Baltika Group

AS BALTIKA

2021 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal Form of Entity	Public limited liability company
Legal address	Valukoja 10, Tallinn 11415, Estonia
Phone	+372 630 2700
E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, purchase and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2021 - 31.12.2021
Name of parent entity	AS BALTIKA
Name of ultimate parent of group	AS BALTIKA

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BALTIKA GROUP IN BRIEF

Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika develops and operates fashion brand Ivo Nikkolo and discontinues operations of the Monton and Baltman brands. Baltika employs a business model, which means that it controls itself or via its partners various stages of the fashion process: design, supply chain management, distribution and logistics, off-line and on-line retail. As of 31 December 2021, Group had 34 Baltika's retail-stores in three markets in the Baltics. The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange that is part of the exchange group NASDAQ.

MISSION AND KEY STRATEGIC STRENGTHS

The mission of Baltika Group is to inspire, encourage and empower through fashion.

- Ambitious team of international professionals
- Strong niche player who understands the area customers' needs and provides for that
- Flat organisation that empowers people, is flexible and moves fast

KEY FIGURES AND RATIOS

	2021	2020	2019	2018	2017
Comprehensive income data, in millions					
Revenue	11,8	19,5	39,6	44,7	47,5
Gross profit	6,1	9,7	19,2	21,5	23,7
EBITDA	1,2	6,5	3,8	-2,9	1,9
Operating profit	-2,5	0,5	-4,5	-4,7	0,6
Profit before income tax	-2,8	-0,2	-5,9	-5,2	0,1
Net profit	-2,9	-0,4	-5,9	-5,1	0,1
Other data					
Number of stores in retail	34	61	82	94	95
Number of stores total	34	61	82	117	128
Retail sales area in the end of period, sqm	9 236	14 869	16 467	17 758	17 741
Number of employees (31 Dec)	173	277	529	975	1 026
Sales activity key figures					
Revenue growth	-39,6%	-50,8%	-11,4%	-5,8%	1,0%
Retail sales growth	-42,4%	-52,2%	-7,4%	-2,7%	-0,5%
Share of retail sales in revenue	83,1%	89,7%	89,7%	86,0%	83,2%
Share of exports in revenue	40,7%	49,0%	54,3%	55,1%	55,4%
Gross margin	52,0%	49,6%	48,5%	48,1%	49,9%
Operating margin	-21,3%	2,7%	-11,4%	-10,5%	1,3%
EBT margin	-24,1%	-1,2%	-14,9%	-11,6%	0,2%
Net margin	-24,6%	-1,9%	-14,9%	-11,4%	0,1%
Inventory turnover	1,78	3,14	2,07	2,14	2,15
Financial position data, in millions2					
Total assets	11,9	16,5	27,3	15,0	17,8
Interest-carrying liabilities	9	10	20	9,0	6,7

Shareholders' equity	0,3	2,7	3,2	0,1	5,2
Current ratio	0,8	0,9	0,8	0,9	1,8
Debt to equity ratio	2802,9%	381,3%	624,3%	13660,8%	128,7%
Net gearing ratio	2606,0%	328,7%	1640,0%	12785,0%	115,1%
ROE	-200%	-31,3%	3408,7%	-138,0%	1,3%
ROA	-21,7%	-1,5%	-21,4%	-28,2%	0,3%

Key share data, EUR3					
Number of shares outstanding (31 Dec)	54 079 485	54 079 485	54 079 485	40 794 850	40 794 850
Weighted average number of shares	54 079 485	54 079 485	36 068 899	40 794 850	40 794 850
Share price (31 Dec)	0,26	0,41	0,14	0,16	0,25
Market capitalisation, in millions (31 Dec)	14,1	22,2	7,3	6,7	10,4
Earnings per share (EPS)	-0,05	-0,01	-0,16	-0,13	0,00
Diluted earnings per share (DPS)	-0,05	-0,01	-0,16	-0,13	0,00
Change in EPS, %	-670%	96%	23%	2981%	0%
P/E	-5,2	-58,84	-0,88	-1,80	57,61
Book value per share	0,01	0,05	0,02	0,00	0,13
P/B	26	8,2	6,3	97,4	2,0
Dividend per preference share	0	0	0	0	0
Interest rate	0%	0%	0%	0%	0%
Preference share dividend payout ratio	0%	0%	0%	0%	0%
Dividend per share	0*	0*	0*	0*	0*
Dividend yield	0%*	0%*	0%*	0%*	0%*
Dividend payout ratio	0%*	0%*	0%*	0%*	0%*

*Proposal to the general meeting.

[1]Any reference to AS Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Definitions of key figures and ratios

EBITDA= Operating profit-depreciation and amortisation - disposal of fixed assets
Gross margin = (Revenue-Cost of goods sold)÷Revenue
Operating margin = Operating profit÷Revenue
EBT margin = Profit before income tax÷Revenue
Net margin = Net profit (attributable to parent)÷Revenue
Inventory turnover = Cost of goods sold÷Average inventories*
Current ratio = Current assets÷Current liabilities
Debt to equity ratio = Interest-carrying liabilities÷Equity
Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)÷Equity
Return on equity = Net profit (attributable to parent)÷Average equity*
Return on assets = Net profit (attributable to parent)÷Average total assets*
Market capitalisation = Share price (31 Dec)xNumber of shares outstanding (31 Dec)
EPS = Net profit (attributable to parent)÷Weighted average number of shares
DPS = Diluted net profit (attributable to parent)÷Weighted average number of shares
P/E = Share price (31 Dec)÷EPS

Book value per share = Equity÷Number of shares outstanding (31 Dec)
P/B = Share price (31 Dec)÷Book value per share
Dividend yield = Dividends per share÷Share price (31 Dec)
Dividend payout ratio = Paid out dividends÷Net profit (attributable to parent)

*Based on 12-month average

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 7 to 36 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Flavio Perini
Chairman of the Management Board, CEO
28 March 2022

Brigitta Kippak
Member of Management Board, COO
28 March 2022

MANAGEMENT REPORT

CEOs' STATEMENT

General overview of the fashion sector

With much of the world under Covid-19- related restrictions through 2020 and 2021, the global fashion industry has faced exceptionally challenging conditions. But after nearly two years of disruption, the industry is beginning to find its feet again.

Despite ongoing headwinds, there were signs by mid-2021 that things were taking a turn for the better, particularly in markets where vaccination rates were high.

But the pandemic has only served to exacerbate inequalities in performance that have become a persistent theme over recent years. A small group of leading brands are equalling, and in some cases already surpassing, their pre-pandemic performance. This should not, however, be confused with a universal return to form. Large numbers of companies will continue to struggle to create value —and, in some cases, to survive — as the bruises of the crisis linger on.

The few brands that outperformed either played into the needs of the moment — comfort, outdoor activities and online shopping — or appealed to wealthier cohorts who were able to better weather the impacts of the crisis. Companies that couldn't align with these market features tended to struggle and the list of casualties grew longer as the pandemic continued through 2021. The proportion of value destroyers (companies generating negative economic profit) in 2021 was higher than ever.

This year's Super Winners group is dominated by sportswear brands, luxury players and Chinese home-grown companies, all of which outperformed the wider market. From a geographic perspective, China recovered to 2019 levels of economic activity much faster than the rest of the world. Chinese demand was fuelled by appetite for local shopping, particularly in the luxury segment, as consumers who faced travel restrictions shifted to domestic alternatives.

Looking ahead to 2022, in aggregate, some top worldwide Consultancy Companies are suggesting global fashion sales will reach 96 to 101 percent of 2019 levels in 2021 and 103 to 108 percent in 2022. Still, while overall sales are expected to make a full recovery next year, performance will vary across geographies, with growth likely driven by the US and China, as 11 Europe lags. In addition, as international tourism remains in the doldrums, the shape of consumption will continue to evolve, sparking a growing focus on domestic spending.

The market environment, however, will remain complex with new challenges to address, amid logistical bottlenecks, manufacturing delays, high shipping costs and materials shortages. These will further inflate input costs and strain imbalances between supply and demand. The likely result will be higher prices for customers.
Market leaders have done also some key moves towards bold moves in digital, taking action on environmental and social priorities and focusing more sharply on diversity, equity and inclusion in response. However, concerns around slow progress In a similar vein, fashion companies will need to ensure they are acting in the interests of all stakeholders — including customers, employees, contractors, investors and wider society. Many brands will push harder on circular business models, greener materials and more sustainable technologies.[i]

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[i] MC Kinsey report " The State of Fashion 2022": https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/state%20of%20fashion/2022/the-state-of-fashion-2022.pdf

2021 for AS Baltika: key facts and figures

For AS Baltika, 2021 was inevitably one of the toughest years ever. We have been impacted by full store closures in Latvia and Lithuania already from December 2020 until May and respectively June 2021, followed by full lockdown in Estonia from March until the beginning of May 2021.

Despite all the adverse business events, our Group finished the year with a loss of 2,900 thousand euros, which includes 190 thousand euro cost provisions, deferred income tax expense of 60 thousand euros, 877 thousand euro of one off costs related to all store closures executed during the whole 2021 and lastly. The comparison does include the extraordinary income of approximately 5,902 thousand euro related to the reorganisation plan which have largely and positively affected our final year-end result in 2020 as a one-off positive extra revenue contribution.

The Group's gross profit margin was 52% equivalent to 6,120 thousand euro – last year was 49,6% and it has been largely influenced by more than 1,685 thousand euro of old Baltman and Monton menswear stock sold through the whole 2021 with additional discounts all over our physical store network especially in Estonia.

Our operating expenses during the lockdown has been only partially contributed by local Governments' business supports. In Latvia, the business support was almost 109% of our total operating expenses while in Lithuania it was approximately 51% and in Estonia, unfortunately, only 21%. Despite the difficult situation, the restructuring payments for the creditors were made with no delay.

Despite all adverse circumstances, our Group has been capable to turn difficulties into strong and very effective actions thanks to a strong, resilient and inclusive management team. In 2021 our Group has fully met the target to close 95% of the non-profitable stores. By the end of December 2021, we had fully executed 27 store closures in the Baltics. 5 additional store closures, mostly in Estonia, are already agreed with the landlords and are set to be fully completed by the end of July 2022.

Remarkable performance during the whole 2021 in Lithuania where, despite the long lock down period lock, a consolidated profit was shown for the first time after several years of accumulated losses.

As a direct consequence of all store closures done in 2021 (27 stores), our Group suffered in 2021 from approximately 877 thousand euro of one-off costs (i.e. redundancies, penalties, re-construction, demolition costs and other operating expenses) which could have not been forecasted at the end of 2020 there were no written agreements with landlords at that time.

Additionally, the most important strategic decision taken by our Group has been the launch of the renewed Ivo Nikkolo collection of clothing and accessories which marked the completion of a crucial part of the brand business strategy – transition to developing one brand. The renewed Ivo Nikkolo was launched in September 2021, introducing a new brand identity, design handwriting and setting an extra focus on sustainability. Thanks to great efforts made by our Design and Buying departments, we managed to make significant progress in moving towards sustainable collection with the first season. We continue exploring, testing and incorporating natural fabrics into our future collections – becoming more sustainable season by season is an ongoing process we will continue contributing to.

The crisis in global supply chains and logistics surely had an impact on our business. We can be happy about the outstanding performance in Q4 in Womenswear and Accessories with an +60% result compared to same period and for the same stores in 2020. Ivo Nikkolo accessories line has been warmly welcomed by our customers all over the Baltics. Accessories performance in Q4 was +32% vs compared to same period and for the same stores in 2020, representing already approximately 16% of our Q4 sales in the Womenswear Department.

In April 2021, following consistently our strategic plan, we sold the Monton trademark to a Chinese corporation Shenzhen Maiteng International Apparel Co.Ltd operating Monton Sports sportswear brand under a free licensing agreement in favour of Baltika to sell the leftover Monton items under the Monton brand until the end of 2023.

In 2021 our Group managed to merge the old AndMoreFashion e-store platform with the new Ivo Nikkolo e-store.

In 2021 our e-commerce sales were representing 1,866 thousand euros equivalent to 16% of our total sales of 2021.

In 2021 we discontinued our menswear lines of Baltman and Monton and started clearing out the old stock. The volume of the menswear stock which was at a level of 1,685 thousand euro at the end of 2020, has been heavily reduced by more than 95% and at the end of 2021 only 87 thousand euro are leftovers. Based on our sales forecast we plan to sell through the old menswear stock by the end of Q1 2022.

2022 forecast:

Our expectations and targets for 2022 are clearly defined:

- To stay even more focus on our core markets (i.e. Baltics) to maximise our sales and retail KPI's.
- To successfully open and launch our first 3 new Ivo Nikkolo concept stores during April and May 2022. Our new stores will be open in Riga Spice and Riga Plaza shopping malls and in Rotermanni quarter in Tallinn end of March and beginning of April 2022. These new openings will become crucial commercial indicators for our future growth plans and will clearly show how we could take the project further to explore new international markets.
- To fully renew our e-commerce platform and ERP system to boost the digitalisation process further.
- To finalise the 5 non-profitable store closures already agreed with landlords in Estonia by the end of July 2022.
- To continue investing in training our store staff and in-house employees to improve the omnichannel experience even further.

All the efforts made during the first 4 months of 2022 will be fully dedicated to protecting our Cash Flow and to strongly restore our equity at Group level to meet all legal requirements indicated by the Commercial Code.
A detailed plan will be fully disclosed and discussed with all shareholders during our AGM already scheduled on 26th of May 2022.

Flavio Perini
Chairman of the Management Board, CEO

FINANCIAL RESULTS OF 2021

Baltika Group ended the financial year 2021 with the loss of 2,900 thousand euros, which includes 190 thousand euros cost provisions, deferrad income tax expense of 60 thousand euros and 877 thousand euros of one-off costs related to all store closures and other operating expenses. Baltics goverment supports received during the year in the amount of 1,070 thousand euros. The year 2020 comparison does include the extraordinary income of approximately 5,902 thousand euro related to the reorganisation plan which have largely and positively affected our final year-end result in 2020 as a one-off positive extra revenue contribution.

In 2021 Baltika Group's sales decreased 40% compared to the last year to 11,770 thousand euros. E-commerce showed a 13% decrease in sales, retail sales decreased by 42% and business customer`s sales decreased by 69% following the strategic decision to fully exit the wholesale business.

In 2021, the retail sales were 9,785 thousand euros, which is 42% less than in the previous year. There are many reasons which might explain this performance which are the following: strategic Group decision to discontinue with mainstream brand Mosaic, Baltman and Monton and to move further with only one brand, Ivo Nikkolo; COVID-19 pandemic which has largely influenced our performance during the whole 2021 in particular during Q1, Q2 and also Q4 (Latvia second full lock down from mid of October till mid of November including all week ends closures till 21st of December); closure of 27 unprofitable stores during the whole Baltics; global supply chain and delivery issues which have caused relevant delays with goods in-store in particular during September 2021. Sales revenue decreased the most in Latvia and Lithuania by 60% and 50% respectively and Estonian market followed shortly with 30%. Sales revenue decreased the most in Latvia and Lithuania by 60% and 50% respectively, but Estonian market followed shortly with 30%. Sales varied widely from quarter to quarter, with the strongest first quarter sales decreased 65% due to the COVID-19 pandemic, and the best result coming in the second quarter, when decreased by just 13%.

In 2021 our Baltika Group's online store decreased by 13% compared to the last year and was 1,866 thousand euros. Over half of sales revenue comes from Estonia.

Group gross profit was in total amount of 6,120 thousand euros, which is 3,556 thousand euros less than in 2020 following the decrease in our sales. Gross profit margin was 52%, which is 2.4 percentage points higher compared to 2020. The positive increase in gross profit margin is due to Baltika Group strategic decision to focus more on full price sales with less discounted items.

Baltika Group's distribution and administrative expenses decreased for the twelve months by 5,036 thousand euros that is 34%. This is related to the strategic decision to close 27 unprofitable stores across the Baltics, thereby keeping operating costs under control.

Other operating income of 2021 was in the amount of 926 thousand euros, which includes various business support amounting to 1,070 thousand euros. Year-end includes the reserve expense made for closing stores in 2022 in the amount of 90 thousand euros and stock provision of 100 thousand euros. Last year 2020 profit included one-off positive reorganisation impact in the amount 5,902 thousand euros. Consistent and significant reductions in distribution and administrative expenses is a part of Baltika Group's ongoing restructuring plan, a focus area, which has led head office expenses to decrease by 240 thousand euros.

Yearly net financial expense was 330 thousand euros and tax expense 65 thousand euros due to change in deferred tax reserve in the amount of 80 thousand euros. In addition, Group´s lockdown related operating expenses were approximatly 30% higher than what Group has received trough various support schemes with a negative impact on our yearly result estimated around 500 thousand euros.

Baltika Group ended the year with cash and cash equivalents of 614 thousand euros, using the bank's overdraft facility in the amount of 1,985 thousand euros (out of the limit of 3,000 thousand euros) at the end of the year.

Baltika will continues to implement the strategy - develops modern high-quality products in its women's fashion brand Ivo Nikkolo, which is available in Estonia, Latvia and Lithuania and in our e-store. There is a strong focus on accessories, where a wide range of quality products is available in all stores.

HIGHLIGHTS OF THE PERIOD UNTIL THE RELEASE OF ANNUAL REPORT

- At the 15th of June 2021 meeting, the Supervisory Board of AS Baltika approved the plan to liquidate AS Baltika's subsidiary Baltika Retail OÜ. Baltika Retail OÜ was operating in the past as a real-estate holding company, but the last related contract regarding warehouse finished 30th of June 2021. The transaction was expected to be finalized in the second half of 2021.

- AS Baltika Supervisory Board, during the meeting held on 1st of June 2021, recalled Triinu Tarkin from the position of Group CFO and Management Board Member following her resignation. The mandate of Triinu Tarkin ended on 4th of June 2021. The new group CFO, Hellika Toome, was appointed starting from 23rd of August 2021. Additionally, the Supervisory Board of AS Baltika was appointed Brigitta Kippak into a newly created role of Chief Operating Officer (COO) and Member of the Management Board starting from 1st of June 2021 with a mandate of 3 years.

- The second wave of COVID-19 restrictions were eased in the second quarter as Estonian stores were fully open from 3rd of May, Lithuanian from 29th of May and Latvian stores from 3rd of June 2021.

- AS Baltika signed on 13th April warehouse service agreement with Logistika Pluss OÜ. Rent agreement for current warehouse premises ended 30th of June 2021. The last important step from restructuring plan was done from 1st of July 2021 - Baltika started to use service that is effective and corresponding to volumes and achieve significant cost savings.

- AS Baltika signed in April an agreement to sell „Monton"trademark in Europe to Shenzhen Maiteng International Apparel Co.Ltd operating Monton Sports sportswear brand. All the proceeds from the sale were used to repay a loan to the bank which holds the pledge to the trademark. Baltika Group has the license to sell under the „Monton"brand for free until the end of 2023.

- With second wave of COVID-19 Estonian government announced further restrictions and closed all Baltika Group´s stores in the weekend from March 6, 2021, and fully from March 11, 2021.

- In February 2021 Kalaport OÜ filed action against Baltman OÜ, claiming 70 thousand euros as rental debt together with late payment penalties. Baltman OÜ is of the opinion that the claim for rent is at the amount filed by Kalaport OÜ unjustified and remains at the position in the court proceeding that the rental agreement is terminated and the rental debt claimed by Kalaport OÜ does not exist in specified extent.

- On January 19, 2021, the extraordinary General Meeting of the shareholders of AS Baltika resolved to approve AS Baltika´s Management Board member Flavio Perini´s share option, to preclude the pre-emptive right of the shareholders to subscribe the shares issued in the course of performance of the option agreement, and to amend Articles of Association to allow increase of share capital up to 5% for the option agreement.

OVERVIEW OF BRANDS

By brands, the largest share of Baltika Group's sales in 2021 was constituted by Ivo Nikkolo with 61%, Monton share was 31% and Baltman 8%. Important shift towards Ivo Nikkolo brand is a result of company's new strategy discontinue with Monton and Baltman brands, therefore were no longer new collection of any other brands than Ivo Nikkolo.

Monton and Baltman

In 2021, Monton`s sales revenue was 3 million euros, decreasing by 73% i.e 8.1 million euros in a year. Baltman's sales revenue was 0.7 million euros, decreasing by 63% i.e 1.3 million euros.

According to the Group strategy and AS Baltika reorganization plan, it was decided to discontinue both Monton and Baltman brand from the second half-year of 2021. It means that all profitable Monton stores were rebranded to Ivo Nikkolo. Most of nonprofitable stores, as well as not suitable stores for Ivo Nikkolo brand were closed during 2021. Store closing process will be ended during first half of the year 2022. The closing process of Baltman stores started in the second half of 2020 and was finished by the end of 2021.

In 2021, Monton and Baltman collection stock leftovers were sold mainly through discount campaigns. From second half of 2021 those brands were mainly presented in Estonian stores, and by the end of the year only in Tallinn Moetänav store. During 2022 Monton and Baltman stock left-overs will be sold only in Tallinn Moetänav store until the store closing during July 2022.

Ivo Nikkolo

In 2021, Ivo Nikkolo`s sales revenue was 5.9 million euros, which increased by 200% i.e 3.9 million euros compared with last year. The main reason for the increase in sales was the company's new strategy to continue with only one brand – Ivo Nikkolo. Ivo Nikkolo sales take 61% of Baltika Group's retail sales revenue

At the same time, sales revenue in E-shop decreased by 13%. Ivo Nikkolo accounts for 53% of Baltika Group's e-store sales revenue as the only brand, what continued to be in Baltika Group's brand portfolio.

By the end of 2021, Ivo Nikkolo brand was represented in 34 stores all over Baltics.

Due to the company strategy and reorganization plan Baltika Group continued only with Ivo Nikkolo brand in previous Monton or Mosaic stores, which met the requirements of the size and expected profitability of the brand. Therefore, during 2021 all previous Ivo Nikkolo stores were closed, except Tallinn, Viru Keskus Ivo Nikkolo, as in this location was opened Ivo Nikkolo accessories test store at the beginning of March 2021. At the same time, 30 of previous Mosaic and Monton stores were turned to Ivo Nikkolo. The brand logos on the facade of the store were changed to Ivo Nikkolo (according to the new Ivo Nikkolo corporate visual identity) during August and September 2021, until then the stores were still named Monton or Mosaic.

The relaunched Ivo Nikkolo

Ivo Nikkolo, established in 1994, has over the decades become the flagship brand for womenswear, as well as a well-known brand in the Baltic region. Since the beginning, Ivo Nikkolo has been known for a high-quality products – mainly in the formal and outerwear category.

As a result of restructuring in 2020, the company decided to continue with one womenswear brand and a year later, Baltika Group introduced the renewed Ivo Nikkolo. Ivo Nikkolo design team is led by head designer and handwriting lead Margot Vaaderpass. In addition, designer and team leader Triin Kaiv, designer Anna Aksjonova and junior designer and 3D designer Timothée Gleize.

2021 spring-summer was a transitional season from the old brand to the new. The transitional new products, as well as new brand aspects, were introduced to the clients. Furthermore, during the transitional season, an increasingly more important product category – accessories – was introduced.

The transitional season was undoubtedly challenging from the brand point of view, as clients were introduced the renewed Ivo Nikkolo products in Monton and Mosaic stores, alongside the Monton collection. In marketing and communication activities, Baltika contributed to new Ivo Nikkolo messages, in order to grow the amount potential customers in addition to customers who were already aware of the changes.

At the beginning of the 2021 autumn-winter season, Baltika launched a completely renewed Ivo Nikkolo brand and introduced its new image as well as clothing and accessories collection. Along with the brand, the mission and values of Ivo Nikkolo went through renewal.

It is the mission of the renewed Ivo Nikkolo to empower, encourage and inspire women through fashion, and to further women’s lives by supporting independence, self-confidence and the beauty of loving who you are. Ivo Nikkolo’s goal is to equip women for their everyday life with effortlessly stylish clothing and accessories that will make them feel elegant yet comfortable in every situation.

In Ivo Nikkolo we are

AMBITIOUS
We think big. Every single day.
We always strive for the best. If failing, we simply learn and move forward. We are here to stand out and to be remembered.

TRANSPARENT
We are trustworthy and authentic.
We are credible in every aspect of the business, for each partner – clear and open about our activities and opinions.

RESPONSIBLE
We pursue responsible entrepreneurship.
Our everyday actions have an impact on many individuals and fields. Therefore, we fully commit to ethical, social and sustainable standards.

OPTIMISTIC
We find opportunities in the world changing around us.
We see challenges as something to overcome together and discover the moments of growth in the process.
The main strengths of Ivo Nikkolo are versatile and comfortable products, modern feminine design handwriting, high-quality materials and details, responsibly created product and a professional yet comfortable omnichannel customer experience. The most important product categories are dresses, outerwear, knitwear, shoes and bags.

2021 Consolidated Annual Report (in thousands of euros)

REVENUE

Revenue by channels

EUR million	2021	2020	+/-
Retail	9.8	17.0	*-42%*
Business Customer sales	0.1	0.2	*-69%*
E-com sales	1.9	2.2	*-13%*
Other	0.0	0.1	*-46%*
Total	**11.8**	**19.5**	***-40%***

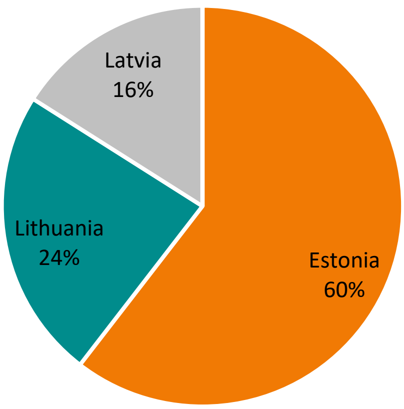
RETAIL

In 2021 retail revenue was 9,784 thousand euros i.e., 42% less than last year's comparative result. This is due to the closure of 27 unprofitable stores.

Retail sales by markets

EUR million	2021	2020	+/-
Estonia	5.9	8.4	*-30%*
Lithuania	2.3	4.6	*-50%*
Latvia	1.6	3.9	*-60%*
Finland	0.0	0.0	*-100%*
Total	**9.8**	**17.0**	***-42%***

Breakdown of retail sales by markets



Baltika Group's biggest retail market continues to be Estonia that increased its share a further 11% mainly due to COVID-19 pandemic, that saw restrictions and store closures in the end of the year in all three Baltics country.

In 2021, sales revenue decreased in all three Baltic retail markets – Latvia by 60%, Lithuania by 50% and Estonia by 30%. This is most influenced by the strategic decision to go forward with only one brand. In contrast to 2020, the global supply problems, which prevented our autumn-winter collection from reaching stores in time, also had a strong impact on the decline in sales. Sales efficiency of the entire retail channel decreased by -3% compared to the previous year.

2021 Consolidated Annual Report (in thousands of euros)

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

EUR/m2	2021	2020	+/-
Estonia	107	120	-11%
Lithuania	103	90	14%
Latvia	103	116	-11%
Finland	0	54	-100%
Total	**105**	**109**	***-3%***

STORES AND SALES AREA

At the end of 2021 Baltika Group had 34 stores in three countries with total sales area of 9,236 m^2. Retail network decreased due to shop closures in all Baltic markets. In 2021, the number of stores in Lithuania decreased by 11, in Estonia by 9 and in Latvia by 7.

Stores by markets

	31 December 2021	31 December 2020	Average area change*
Estonia	16	25	-27%
Lithuania	9	20	-35%
Latvia	9	16	-39%
Total stores	**34**	**61**	
Total sales area, sqm	**9,236**	**14,869**	**-32%**

* Yearly average area changes also considered the time store is closed for renovation or closings due to COVID-19 restrictions.

E-STORE SALES

In 2021, Baltika Group's online sales were 1.9 million euros decreasing by 13% compared to 2020. Ivo Nikkolo brand online sales increased by 53% and sales were 912 thousand euros. The 2021 on-line sales are not fully comparable with 2020 year because starting from September online store started to sell only Ivo Nikkolo brand and the decrease in our on-line sales was mostly driven by our ex-Mainstream brands (decreased 56%) and by Baltman brand (decreased 24%).

2021 was a highly contrasting year for Baltika Group’s e-store. Focus was on new Omni-channel strategy which meant making less sale offers and focusing more on full price product sales. Yearly average markdown percentage decreased by 5 percentage points. New e-com sales strategy focused solely on the Ivo Nikkolo brand and it’s great to notice that Ivo Nikkolo e-store average markdown percentage decreased by 12 percentage points, and this explains Ivo Nikkolo gross profit in e-commerce increased by 79%.

2021 was also a transitional year from Andmorefashion.com e-store to Ivonikkolo.ee and Monton.ee e-stores. In September, Monton.ee was finally closed and Baltika Group continued only with Ivo Nikkolo e-store. Transitioning to new e-store meant changing the e-commerce front-end design to represent Ivo Nikkolo new corporate visual identity better. Additionally, all social media communication and advertising moved under Ivo Nikkolo name.

Overall, Baltika Group’s e-store hosted 1 599 745 (increased 29% vs last year) and users who generated 3 412 935 (increased 2% vs last year) visits during the span of the entire year. Most visitors (90%) originated from the Baltics. The average age of Baltika Group’s e-com core users was 25-54 (41% of total users). 2021 also demonstrated again the significance of mobile devices, as the total share of mobile devices went from 62% to 68%. Mobile devices use has shown steady growth in the past previous years. However, most sales (65%) still come from desktop users.

In terms of traffic acquisition, Baltika Group's e-store generated most visits via online advertisements, as traffic from digital ads increased by 512%. Organic search engines dropped to the second place and their users decreased by 20%. Paid search traffic increased by 28%. E-mail traffic rose by 11%.

LOYALTY PROGRAMME

Ivo Nikkolo's loyalty program covers all Baltic stores and the e-store. The program was launched in 2014 under the name AndMore bonus program, as it drew together all loyal customers of Baltika's brands. At the end of 2020, several changes were made to the loyalty program.

Ivo Nikkolo's loyal customers receive exclusive information about the new collections and special offers, instead of the usual 14-day return option, they have a 30-day product return period with several personal offers – for example, a birthday discount.

Due to changes in the company's strategy, the re-profiling of the customers was necessary. The loyal female customers were re-profiled under Ivo Nikkolo (incl. former Monton and Mosaic customers) and male customers into the other segment (incl. Monton and Baltman customers).

As of the end of 2021, 561 024 people had joined the loyalty program, including 3 372 customers who had joined the program last year. The purchase volume of the loyal customers makes up 40% of the total sales in stores and e-store while the purchase volume of non-loyals was 60%, respectively. While the share of loyal and non-loyal customers' purchases in Estonian and Latvian markets is more equal, in Estonia respectively 47% and 53% and in Latvia 50% and 50%, in Lithuania, the most majority of the purchases, 87%, is made by non-loyal customers.

OPERATING EXPENSES AND PROFIT

Baltika Group's gross profit margin for 2021 was 52%, which is 2.4 percentage points higher than last year (2020: 49,7%). In 2021, revenue decreased by 39.6% and gross profit by 52%. The company's gross profit was 6,120 thousand euros, which is 3,556 thousand euros less than the comparable result of the previous year (2020: 9,676 thousand euros).

Baltika Group's distribution and administrative expenses decreased during a year by 5,036 thousand euros to 9,551 thousand euros (2020: 14,587 thousand euros). 909 thousand euros (2020: -22%) was contributed by the decrease of recurring fixed costs in Baltika Group's head office. Costs in the retail market decreased by 3,578 thousand euros over the year to 6,343 thousand euros, including one-off costs of 877 thousand euros and a contract with a professional warehousing service provider, which will lead to cost savings in line with volumes.

Other operating income of 2021 was in the amount of 926 thousand euros, which includes various business support amounting to 1,070 thousand euros. Year end includes the reserve expense made for closing stores in 2022 in the amount of 90 thousand euros and stock provision of 100 thousand euros. Last year 2020 profit included one-off positive reorganisation impact in the amount 5,902 thousand euros.

Yearly net financial expense was 330 thousand euros and tax expense 65 thousand euros due to change in deferred tax reserve in the amount of 80 thousand euros.

FINANCIAL POSITION

As at 31 December 2021, Baltika Group's cash and cash equivalents amounted to 614 thousand euros (1,427 thousand euros as at 31 December 2020) . Baltika Group has used the bank's overdraft facility in the amount of

1,985 thousand at the end of the year. Unused part of overdraft was 1,015 thousand euros (2020: 3,000 thousand euros).

As at 31 December 2021, Baltika Group's trade receivables and other receivables amounted to 696 thousand euros, increasing by 378 thousand euros compared to the end of the previous year. The increase is related to an amendment to a new loan agreement between KJK Fund Sicav-SIF, a major shareholder of the company, entered into force on 31 December 2021, according to which KJK Fund Sicav-SIF will grant a subordinated loan of 500 thousand euros. The loan will be transferred to AS Baltika in February 2022. Until then, this amount is recorded under other current receivables.

At the end of the year, the Group's inventories totalled 2,491 thousand euros, decreasing by 976 thousand euros, i.e. decreased 28% compared to the end of the previous year. The biggest decrease comes from finished goods and goods purchased for retail in the amount of 848 thousand euros. Baltika Group has taken a pro-active stance in current volatile market situation and made sure that there is no over-stocking, the more with the planned decrease in number of stores.

Fixed assets were acquired in 2021 for 369 thousand euros and depreciation was 588 thousand euros. The residual value of fixed assets has decreased by 329 thousand euros compared to the end of the previous year and was 1,486 thousand euros.

Right of use assets net book value as at 31 December 2021 amounted to 5,956 thousand euros. The asset balance decreased by depreciation of 3,133 thousand euros and contract termination costs of 1,150 thousand euros, but increased by new contracts of 1,040 thousand euros.

As at 31 December 2021, the total debt was 8,745 thousand euros, which together with the change in overdraft means a decrease in debt compared to the end of the previous year (31.12.2020: 10,341 thousand euros) by 1,596 thousand euros. The decrease in the Group's debt is mostly related to the restructuring of creditors' claims arising from the reorganization plan.

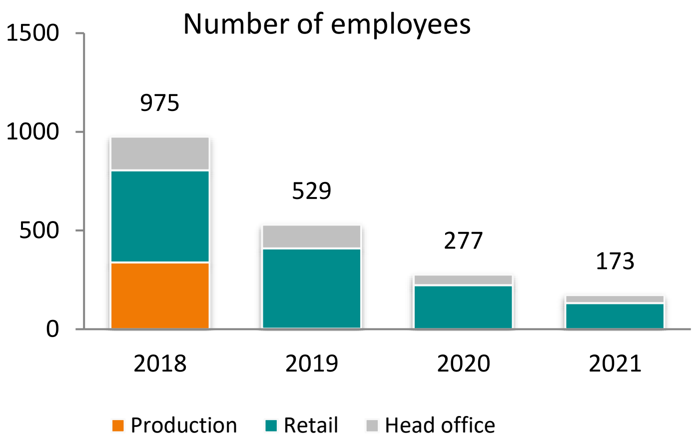
As at 31 December 2021 the Group equity is 312 thousand euros. The new amounts allocated to subordinated loan at the end of the year (500 thousand euros) the reserves amount to 4,431 thousand euros and hence the equity does not meets the Commercial Code requirement of 50% from share capital.

CASH FLOWS

Baltika Group's cash flow from operating activities in 2021 was 1,430 thousand euros that is decreasing to previous year (2020: 4,894 thousand euros). The decrease in cash flow is mainly due to the change in the balance of inventories, 3 201 thousand euros. 369 thousand euros (2020: 503 thousand euros) from the cash flows of financing activities were invested into fixed assets. Loans were repaid during the year in the amount of 293 thousand euros. The used part of the overdraft facility at the end of 2021 was 1,985 thousand euros. The Group's cash flow totalled 813 thousand euros (2020: 1,163 thousand euros), which means a cash balance of 614 thousand euros in the end of the year.

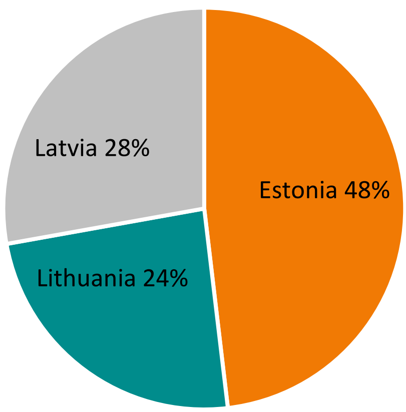
PEOPLE

As at 31 December 2021 Baltika Group employed 173 people that is 104 people less than as at 31 December 2020 (277). Due to reduction of numbers of store but also number of people in market office retail staff decreased by 185 people. With the restructuring that speed up with reorganisation the head-office staff reduces over the year by 67 people.



Baltika Group employees' remuneration expense in 2021 amounted to 3,999 thousand euros (2020: 6,198 thousand euros). The accrued remuneration of the member of the Supervisory Board and Management Board totalled 453 thousand euros (2020: 289 thousand euros).

Breakdown of personnel by country at 31 December 2021



OUTLOOK AND OBJECTIVES FOR 2022

Economic environment

According to Eesti Pank's latest economic forecast, Estonia's economic growth will slow down after a rapid recovery. The 8% growth in 2021 will be replaced by 2.8% in 2022. The slowdown is mainly due to the passing of the short-term growth acceleration associated with the exit. On the one hand, the withdrawal of the low benchmark will bring growth close to potential in the coming years, but on the other hand accelerated price growth, supply-side constraints and the impact of changes in the pension system will also dampen growth.

Although the coronavirus omicron strain has led to a very high number of infections and a consequent increase in the burden on hospitals, it is not expected to have a significant impact on economic activity. Companies have a steady resource and bank lending conditions remain favourable. In addition, strong fiscal stimulus and savings for consumption as a result of the abolition of the mandatory second pillar will temporarily boost demand and thus economic activity over the forecast horizon.

The flexible labour market has led to a sharp fall in employment and aid must be targeted at helping the unemployed. Although Estonia's economic decline has been one of the softest so far, the fall in employment has been more severe than in most other European countries. Businesses have largely adapted to the measures imposed to combat the coronavirus, which mainly affect employment in areas where contacts are high and remote working is not possible. Businesses are looking to recruit more workers and the labour shortages that are already manifesting themselves will not ease, despite the fact that labour force participation is set to increase in the coming years - with people who have left the labour market more likely to find suitable jobs and better pay offers. Labour shortages, soaring consumer prices, increasing workloads and rising minimum wages are driving wage growth.

While in the main scenario the economy is forecast to grow by 2.8% next year, in the negative scenario the Estonian economy could contract by 1.8% next year. The wide forecast range is strongly correlated with the projection for the euro area, with growth in the range of 0.4%-6% in 2022. High indeterminacy about external demand also makes the outlook for the Estonian economy uncertain.

Consumer price growth accelerated to 12.2% in December, the fastest in 25 years. As in most other European countries, this was mainly due to high energy prices. High energy prices are also pushing up the prices of other goods and services, while strong demand and continuing supply disruptions are putting further pressure on prices.

Consumption is growing along with income, but inflation is reducing people's real purchasing power. Rising household incomes and limited access to services have contributed to growth in retail sales. In the first eleven months of 2021, retail sales at comparable prices in Lithuania and Estonia increased by more than 10% compared to 2020, but in Latvia retail sales increased by only 1.8%. Over the past decade, the development of retail sales has been almost identical in all the Baltic countries, but this year retail sales in Latvia have increased much more slowly than in Lithuania and Estonia. Economic growth in Lithuania and Estonia has been slightly better than in Latvia in 2021, and in Estonia, people's ability to withdraw their second-pillar pension savings has boosted consumption. At the same time, wage growth will be similar in the Baltic countries and household deposits will have increased by 16-21% in 2021. Differences in retail sales between the Baltic countries are thus mainly due to epidemiological trade restrictions, which have been more extensive in Latvia than in Lithuania or Estonia.

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

Baltika Group

The main goal for 2022 is to remain financially stable and finalise the organisational restructuring started in 2019. The main parts of action plan are:

- **Maintain financial stability**
  Protect cashflows especially during first and second quarter of the year when the effects of the pandemic may still be continuing: keep costs under control and carefully manage stock position.
- **Reduce operational costs**
  Further reduce the operational costs compared to 2021. This should come from both retail costs in line with closing of stores, but also from head-office expense
- **Successfully launch new Ivo Nikkolo stores**
  Launch our first 3 new Ivo Nikkolo concept stores during April and May 2022. Our new stores will be open in Riga Spice and Riga Plaza shopping malls and in Rotermanni quarter in Tallinn. These new

openings will become crucial commercial indicators for the future growth plans and will clearly show how we could take the project further to explore new international markets.

- **Increase e-com sales**

  To increase e-com sales with commercial partnerships and to invest into a new e-com platform by the end of the year, more agile and easy, capable to deliver a unique user experience to all our customers, allowing our Group to explore other markets also on our own. E-commerce sales are planned to be at least at 15% of our total turnover.
- **Improve customer experience**
  To invest in our people to increase our capabilities and to train our store staff to deliver a very consistent unique off-line customer experience to all our customers.

SOCIAL RESPONSIBILITY REPORT

The foundation of the activities of Baltika Group are transparent. The Group regards social responsibility and environmental impact management as being important in its everyday activity. More detailed coverage of the natural environment (production, supply, material and resource handling) and social aspects (employees, human rights, transparent management) related to the Group's activities confirm it will make an increasing substantive contribution in those areas.

Baltika Group contributes to the development of socially important areas through various projects. The environmental parameter has been integrated into the Baltika Group's management system and the everyday work of individual units is organised in as environmentally friendly manner as possible.

The Company cares for its employees and has established the valuation of employees as a strategically important subject. Baltika Group aims to ensure that the entire supply chain observes the social and environmental principles and requirements established by Baltika Group.

EMPLOYEES

Baltika Group is an international organisation that supports diversity and inclusion. We value transparency and authenticity in our dealings with people.

At 31 December 2021, Baltika Group employed 173 people, which is 104 persons less than on 31 December 2020 (277). In total, 133 people worked in our retail organization (31 December 2020: 225) and 40 at the head office (31 December 2020: 52).

The number of people working in the markets were distributed as follows: 64 in Estonia (31.12.2020: 146), 33 in Latvia (31.12.2019: 52) and 37 in Lithuania (31.12.2020: 79).

The personnel of Baltika Group in 2021 consisted of:

- 94% women and 6% men;
- people with 7 different mother tongues and 5 different languages were used in daily work;
- 41.2 years is the average age in Baltika Group, the youngest being 17.5 and eldest 71;
- average length of service in Baltika Group is 8.3 years with the longest being 46 years.

2021 Consolidated Annual Report (in thousands of euros)

Baltika Group's personnel by units and markets

	Personnel 31.12.2021	%	Men (%)	Woman (%)	Start working in 2021	Left during 2021
Baltika AS	40	22,5%	3,8%	18,7%	26	63
Retail	133	77,1%	1,7%	75,4%	45	128
Estonia	64	30,2%	0,6%	29,7%	12	31
Lithuania	32	26,3%	0,2%	26,1%	13	37
Latvia	37	19,7%	0,6%	19,1%	20	60
BALTIKA GROUP	**173**	**100%**	**6%**	**94%**	**71**	**191**

Changes in the organizational structure

In 2021 Baltika Group staff decreased by 37% compared to last year, mostly in connection with the reorganization strategy, closing of the central warehouse as well as several stores in all markets.

Triinu Tarkin left the Baltika Group Management Board in March and on 1 June Brigitta Kippak, a long time Group Sales and Merchandising Executive, joined the Board, which continued to focus on developing a sustainable company business model during the rest of the year. A new CFO and Head of Buying were added to the Management Team in August as well as new Regional Retail Managers in Estonia and Lithuania, who joined in Q4.

Baltika Group as an employer

During the first half of 2021, Baltika Group's relations with its staff were heavily influenced by extensive lockdowns in Latvia and Lithuania, and in the spring, to a lesser extent, also in Estonia. The different COVID-19 waves forced the headquarter staff into home offices now and again and the digital tools and hybrid working methodologies invented in 2020 were embraced again. As needed, staff were assisted in setting up safe and ergonomic home office environments. Increased productivity from flexible working place and time management is also among the 2022 priorities.

Stores management structure was updated in 2021 and all staff received new role descriptions. During summer, a complete update was made on the Service Standard that enables store employees better understand the expectations set for their work. Training opportunities for store staff were significantly enhanced, including a new e-learning platform, which enabled the Group to organise training activities even during times of lockdown and provided an opportunity to keep staff active and engaged. Based on all this, a more efficient and systematic approach to staff personal development can be taken in 2022.

At the end of the year, a project was initiated to define the new company values to home in on who we are as a company and alleviate the psychological effects of the global pandemic, lockdowns and reorganization. With a view on increasing unity and accountability among staff, new common traditions were started, and inclusive decision making was used whenever possible.

CUSTOMER EXPERIENCE MANAGMENT

In Baltika Group, sales activities, stores and e-store operations and customer service are managed by the following principles:

- Customer communication, marketing and advertising activities are based on agreed goals and targets within the group
- Baltika Group complies with all the norms established by law in its home markets

In 2021 it became important to apply the renewed Ivo Nikkolo strategy and concept in sales channels. In addition, many important steps were taken to attract new customers for Ivo Nikkolo.

- Due to the launch of the new Ivo Nikkolo, Monton and Mosaic stores were either closed or renamed
- In September 2021, all Ivo Nikkolo stores got a new logo and refreshed look before the finalization of the new concept.
- In 2021, floor plans of all the stores in the Baltics were changed to look similar as well as be similar on an operational level. Visual merchandising of the stores and the layout strategy got important improvements, aiming to offer customers an even better shopping experience

- A new store concept, currently being implemented, was handed over by the partner agency Schwitzke. The first 3 stores will be opened in the Rotermanni Quarter in Tallinn, in Riga Spice and Riga Plaza shopping centers.
- In 2021, an in-depth customer service upgrade project was started, new standards of service were set and have been in active use since the summer of 2021 in all Baltika Group stores. All of the store employees went through multiple trainings in order to acquire the new standards and to carry them out in the store.
- In December, the first wave of test-buying was carried out for evaluating the quality of service. As a result, a personal development plan for increasing the quality of service is being conducted.
- Product returns got an in-depth analysis and corrections in order to get ongoing feedback about which products are being returned and what is the reason for it. Information about the returns is crucial to take into consideration as the future collections as well as sales channels and customer service can be improved.
- In the Ülemiste shopping center, the first click & collect test locker in collaboration with Cleveron was opened. Click & collect service is an important part of the new Ivo Nikkolo store concept.
- In 2021, cooperation between markets and Baltika Group sales and marketing team increased in order for processes to be more effective and flexible, sales organizations better trained and customer experience even smoother.

Everyday feedback on products and collections given by customers regarding Baltika Group`s customer service personnel reaches the headquarter of Baltika Group via regular reports. Customers can also provide feedback via Customer Support e-mail, chat or Customer Support hotline – those channels give us valuable feedback on both products and the service level in Baltika Group`s stores. The customer complaints process (including returns and replacements) is in the retail frontline competence. A separate process and information system has been created for product quality-related feedback from customers, through which information is gathered from the customers of retail organisations and forwarded to the quality department of Baltika Group. The history of complaints forwarded by e-mail and telephone is recorded automatically. Complaints are solved in the Baltika Group on a case-specific basis. If complaints become more frequent in an area, this is pointed out to the head of the relevant area.

HUMAN RIGHTS

Baltika Group is dedicated to ensuring that the conduct of all the parts of the production and supply chain is ethical and responsible. To ensure this, Baltika Group's expectations for its suppliers are described in the Supplier Manual. In establishing the principles, Baltika Group has been guided by the International Code of Ethical Trading Initiative (ETI), established by the International Labor Organization (ILO).

These principles cover different aspects of human rights, including:

- standardization of working time
- ensuring safe and hygienic working conditions
- ensuring fare pay

- prohibition of discrimination
- banning child labour

COMMUNITY ACTIVITIES AND SPONSORSHIP

To support a positive image of Baltika Group and achieve common goals, Baltika Group has been engaged in the development of the fashion and creative industry and, since last year, in the quality of retail management. In 2021, the Group's specialists and management team members gave lectures to students of the Estonian Academy of Arts and TTK University of Applied Sciences. Years of collaborations between the Estonian Academy of Arts, Tallinn Industrial Education Centre, TTK University of Applied Sciences, Tallinn School of Economics and Baltika Group, especially in the internship program, has hindered due to the pandemic. Fortunately, two fashion and retail students were able to acquire practical experience in Baltika Group.

All Baltika's sponsorships, charities and community activities are based on the company's values and sponsorship principles. Baltika Group strives to be a responsible society member, contributing to Estonian design and retail development, increasing an industry-based quality of knowledge and encouraging design-thinking.

Due to the COVID-19 pandemic and the strategic decision of the Group to continue with one womenswear brand, the number of sponsorship projects was reduced significantly for the Group itself as well as the regional markets.

Baltika has supported Estonian Olympic Committee under the Monton brand since 2004. During the sponsorship period, Monton designers have created the official clothing for Estonian athletes. Estonian athletes have worn the collections specially made for the Olympics with great pride in Athens, Torino, Bejing, Vancouver, London, Sochi as well as in Rio de Janeiro. Since the 2020 Tokyo Olympics were delayed for a year, Monton released the collection briefly before the start of the Olympics although Monton was not an actively operated brand anymore.

The special Tokyo 2020 collection was named „The Sounds of Forest", symbolizing the significance of forest in Estonian and Japanese cultural context and showing the importance of forest and belief in living nature, in two seemingly very different cultures.

The campaign visuals with Estonian Olympic athletes Magnus Kirt and Epp Mäe, were produced and both were the Olympic collection ambassadors during the campaign period.

For many years, Baltika has supported the most successful student company in Estonia, which also represents Estonia in the European student companies competition. In 2021, a representative of Baltika took part in the Estonian student companies competition as a member of the jury. As a prize for the winning company, who in 2021 was Spotter, Baltika awarded clothing sets for participating at the European Finals.

As 2021 came with multiple changes within the stores and renewals in the concept, Baltika started a collaboration project with the Red Cross in order to give a new life for store furniture without use. Old Baltika paper bags were put into good use through Eesti Toidupank.

MANAGEMENT OF ENVIRONMENTAL IMPACTS

General management of environmental aspects

Baltika Group pays attention to environmental impacts related to the fashion industry and production (e.g. use of resources, chemicals and waste) in supply chain management, in the head office and in the production units. In order to ensure transparency and traceability in the supply chain, the Supplier Manual has been developed to regulate cooperation between the Baltika Group and its suppliers. This document sets out the principles of ethical and responsible procurement, establishing requirements environmental issues. The main environment-related aspects regulated by the Supplier Manual are as follows:

- Waste reduction and environmentally friendly waste management
- Optimisation of the use of energy and natural resources by suppliers
- Consideration of air, noise and smell levels in production units
- Reduction of the use of chemicals and consideration of international, national and sector-based practices
- Reduction of the use of water and environmentally friendly management of wastewater

SUPPLY CHAIN MANAGEMENT

Baltika Group regards suppliers as strategic partners. Close cooperation and committed relationships with partners involved in the entire value chain is fundamental in the creation of Baltika Group's products, their longevity and quality. This requires long-term relationships, built on mutual trust and openness, commitment and alignment of business objectives, established and maintained with care on the basis of common values and a shared vision of the future.

The supply chain of Baltika Group has a global presence. One of our main objectives set in the second half of 2021 was to significantly emphasise the production areas closer to our Head Office and physical stores in Europe. This enables us to adapt our product offering to any emerging changes in trends and tailor our production levels more accurately to demand, a part of our model that has been of specific importance in 2021 and will continue to be so in 2022. This has allowed us to minimise the production of excess goods and contribute to responsible stock management aligned with both our commercial objectives as well as sustainability goals.

For Baltika Group, caring and respect for Human and Labour Rights of workers in the supply chain is fundamental. Manufacturing and supply are based on socially responsible supply chain management that guarantees dignified working conditions for all workers. The challenging situation of COVID-19 has shifted our focus on the well-being of the workers even more. We have been in regular contact with our core suppliers, analysing sales, estimating capacities and working in cooperation with suppliers to review their situation and standing. This has enabled us to understand their needs and to offer them any necessary support possible. We have been conducting assessments to verify the implementation of the essential preventive measures for the health and safety of workers in our manufacturing facilities in relation to COVID-19.

In order to create long-lasting collaboration with suppliers we share Baltika Group's fundamental values expressed in the Supplier Manual. The suppliers of Baltika Group must agree to comply with the code of conduct outlined in the Supplier Manual before starting the business relationship with the Group. The Manual defines the rules of ethical and social conduct that suppliers commit to adhere to in order to guarantee that products are manufactured in compliance with the highest standards of quality and safety. The new supplier selection process takes place in accordance with quality and reliability criteria that include the requirements specified in the Supplier Manual.

In order to ensure responsible production, our Quality, Buying and Sourcing teams also conduct visits and audits among existing and potential new cooperation partners, evaluating compliance and conformity. We perform monitoring to ensure the facilities we work with meet the health and safety standards outlined in the Supplier Manual, as well as local and international regulations. We train our suppliers, support them in the application of our standards and requirements, and work jointly with them towards ongoing improvement. Baltika Group has reviewed and strengthened the control on compliance with the procedures and continue to do so in 2022.

We believe that keeping a curated supplier network is critical to the success of Baltika Group and our goals. We will continue to invest in our relationships with primary suppliers to improve all areas of the supply chain.

PRODUCTS AND QUALITY

The core of Baltika Group's business is the product we create. How and where it is produced is therefore of utmost importance to both us and the customer. The product offering is continually improved to meet customers' expectations. Supply chain development is a core part of Baltika Group's work to secure the best customer offering and increase availability in all channels. We have been conducting seasonal reviews on production processes to identify key areas of opportunity and improvement.

Speed and flexibility have shown their growing significance in 2021, particularly in the supply chain, and will become even more important going forward. The Buying and Sourcing team at Baltika Group, in cooperation with our in-house Logistics team and partners, are an important part of our work to have the right product in the right place at the right time and at the right cost. Combined with more efficient processes, this increases our precision and thereby contributes to a more sustainable use of resources.

The Product Development Department is in constant contact with the stores and retail teams, conducting store visits and exchanging feedback, which combined with our ability to react means we can capture customers' preferences and adapt accordingly. We actively work on searching for increasingly sustainable materials and production processes, which contributes to raising quality standards and making progress on the circular economy model.

The cornerstone to ensuring compliance with the Group's sustainability standards and requirements, is traceability. In 2022 the focus will even more towards traceability at levels and processes further away from the end product, which will allow us to guarantee compliance with the social and environmental criteria regarding the materials and factories used to produce our items.

As the high quality of our products is in highest regard at Baltika Group, we continually improve our quality management and control processes. A high-quality garment has a longer life span and allows for re-use and recycling, which is a crucial environmental factor in the clothing and fashion industry.

We have fully implemented and integrated 3D product development into our system. This has reduced the number of physical samples produced in development stage and made the process leaner. Time, materials, and transportation costs have been reduced taking us another step closer in having a lesser environmental impact in the product development process.

USE OF MATERIALS AND RESOURCES

Baltika Group values managing environmental impacts and is guided by the sustainable manners in its activities.

Baltika Group values environmentally friendly thinking and has therefore significantly increased the role of sustainable and recycled materials in creating collections.

In 2022 Ivo Nikkolo continues with the development of sustainable collections strategy. Ivo Nikkolo has always valued quality and has invested heavily in design that lasts for a long time and provides high and durable quality. In addition, a lot of attention is given to choosing materials that are better for the environment. In Spring-Summer 2022 season clothing collection, the sum of materials that are either natural or considered sustainable is 50%. In 2022 season winter and summer collection natural materials include: wool, cashmere, silk, cotton and linen. Such sustainable materials as organic cotton, Tencel, recycled polyester and outerwear insulating material Sorona are continued to be used. Petroleum based synthetic materials such as polyester are avoided when possible and replaced with such cellulose based synthetic materials as viscose. In addition, accessories collection uses mainly natural materials, for example: leather, wool, cotton, silk, cashmere, offering the best comfort, fit and durability. Some of our partners are using leather which is approved with the Gold Standard from the Leather Working Group.

Sustainable mind-set is also maintained in the area of the choice of packaging materials. For example:

- Ivo Nikkolo paper hangtags are made from recycled paper;
- Baltika Group does not usually purchase transport packages itself, but reuses packing cases brought to the company by suppliers instead. For suppliers, the guidelines regarding packages are described in the Supplier Manual;

In addition to furniture and package material reuse the efficient usage of stock excess is important as well. Fabric samples are mainly distributed to art schools and kindergartens.

CORRUPTION

In Baltika Group, the topic of corruption is regulated by Baltika Group's Rules of Procedure. The Rules of Procedure regulate areas such as misuse of internal information, the concept of insiders and obligations extended to them, questions related to maintaining and managing business, service and production secrets.

In 2021 there were no registered corruption cases, fair trade or ethics or any other similar violation in Baltika Group.

BALTIKA SHARE

Baltika's share has been listed on the Nasdaq Tallinn Stock Exchange since 5 June 1997. Nasdaq Tallinn Stock Exchange is a member of the world's largest exchange company NASDAQ. NASDAQ was established at the beginning of 2008 when NASDAQ Stock Market completed its merger with the Baltic and Nordic exchange company OMX. Stock Exchange Company delivers trading, exchange technology and public company services in 50 countries and to over 3,500 listed companies.

Baltika's share does not have an official market maker. The rules enforced in 2005 require newly listed companies to sign a relevant agreement for a certain period. For shares that have been listed for a longer time, it has not been necessary to enter or extend such agreements.

Shares

AS Baltika has 54,079,485 ordinary shares. Nominal value of share is 0.1 euros per share.

Ordinary shares

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

Information on listed ordinary shares

NASDAQ symbol: BLT1T
ISIN number: EE3100145616

Minimum number of shares to trade: 1
Number of shares: 54,079,485
Nominal value of a share: 0.1 euros
Votes per share: 1

Share price and trading

In 2021 the price of the Baltika share decreased by 15% to 0.26 euros, the Group's year-end market capitalisation was 14.06 million euros. During the same period, the OMX Tallinn All-Share Index increased by 5%.

Share trading history

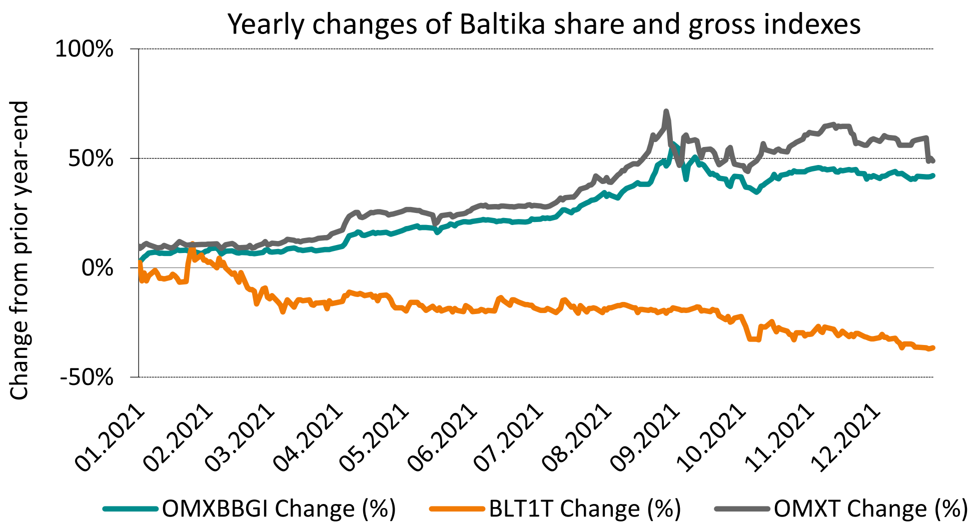
EUR	2017	2018	2019	2020	2021
High	0.33	0.28	1.00	0.544	0.465
Low	0.25	0.16	0.10	0.08	0.25
Average	0.29	0.22	0.55	0.18	0.2
Year-end price	0.25	0.16	0.14	0.41	0.26
Change, %	-10%	-36%	-16%	+204%	-15%
Traded volume	2,607,312	5,597,022	5,116,639	3,315,068	2,244,400
Turnover, in millions	0.75	1.04	0.86	0.61	0.78

Indices

The Nordic and Baltic exchanges of NASDAQ use the same index structure. The NASDAQ OMX Baltic index family comprises the All Share Index, the Tradable Index, the Benchmark Index, and sector indices. The indices are calculated in euros as price (PI) and/or gross (GI) indices. All indices are chain-linked, meaning that they are calculated based on the price level of the previous trading day. All Baltic equity indices, except sector indices, have a base value of 100 and a base date of 31 December 1999. The sector indices have base value of 1000 and base date of 30 June 2011. The base date for OMX Tallinn is 3 June 1996.

As of February 2022 Baltika share was part of the following all share indexes:

Index	Description	Type	Short name
OMX Tallinn GI	OMX Tallinn all share index	Gross index	OMXT
OMX Baltic GI	Baltic all share index	Gross index	OMXBGI



2021 Consolidated Annual Report (in thousands of euros)

Shareholders structure

At the end of 2021, AS Baltika had 2,615 shareholders. The number of shareholders increased by 485 during the year.

The largest shareholder of AS Baltika is KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account), which owned 89.7% of ordinary shares as at the end of 2020. The full list of shareholders is available on the website of the Estonian Central Securities Depository (www.e-register.ee).

Largest shareholders as at 31 December 2021

	Number of shares	Holding
ING LUXEMBOURG S.A.	48 526 500	89,73%
AS Genteel	1 297 641	2,40%
Clearstream Banking AG	1 069 624	1,98%
AB SEB BANKAS	303 945	0,56%
Kaima Capital Eesti OÜ	231 578	0,43%
SWEDBANK AS, LATVIA	152 922	0,28%
Tarmo Kõiv	143 000	0,26%
PAAVO KAIS	105 000	0,19%
Others	2 249 275	4,17%
Total	**54 079 485**	**100%**

Largest shareholders are international investment funds and other legal entities who own approximately 97% of AS Baltika`s shares. Individuals hold approximately 3% of the shares.

Shareholder structure by shareholder type as at 31 December 2021

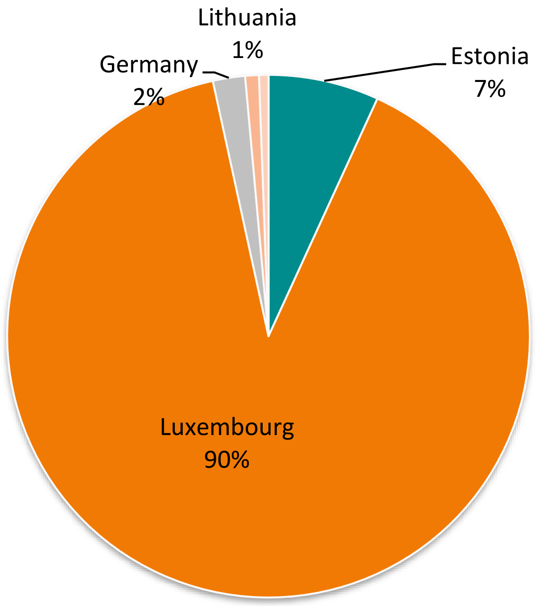
	Number of shares	Holding
Legal persons	52 292 324	96,70%
Individuals	1 787 161	3,30%
Total	**54 079 485**	**100%**

Shareholder structure by size of holding as at 31 December 2021

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	1	0,04%	48 526 500	89,73%
1,0 - 10,0%	2	0,08%	2 367 265	4,38%
0,1 - 1,0%	14	0,54%	1 214 865	2,25%
< 0,1%	2 598	99,35%	1 970 855	3,64%
Total	**2 615**	**100%**	**54 079 485**	**100%**

2021 Consolidated Annual Report (in thousands of euros)

Shareholder structure by country at 31 December 2021



Share capital

Baltika share capital was 5,407,949 euros throughout 2021.

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
31.12.2015				40 794 850	8 159	496
31.12.2016				40 794 850	8 159	496
01.06.2018	Decrease of share nominal value				-4 080	-496
31.12.2018				40 794 850	4 079	0
31.03.2019				40 794 850	4 079	0
06.05.2019	Increase of share nominal value				36 715	
06.05.2019	Exchange of shares			-36 715 365	-36 715	
22.05.2019				4 079 485	4 079	0
27.05.2019	Decrease of share nominal value				-3 671	
15.08.2019				4 079 485	408	0
16.08.2019	Share Emission	5 000 000	50 000 000	50 000 000	5 000	0
31.12.2019				54 079 485	5 408	0
31.12.2020				54 079 485	5 408	0
31.12.2021				54 079 485	5 408	0

Dividends

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

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

As the decision of the Annual General Meeting held on April 12, 2019, according to item 7 of the agenda, AS Baltika's share capital was reduced in a simplified method to cover losses then, in the case of a simplified reduction of the share capital, no dividend can be paid to shareholders during the financial year and the two financial years following the decision to reduce the share capital.

AS Baltika is in reorganisation and until finalising the reorganisation plan, no dividend can be paid to shareholders.

Baltika Group ended 2021 with a consolidated net loss of 2,900 thousand euros. The Management Board of Baltika Group proposes that this year no dividends be distributed to the holders of ordinary shares. In previous year, the company did not distribute any dividends either.

For dividend history and ratios, please refer to the Key share data table.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Code (CGC) of Nasdaq Tallinn Stock Exchange is a set of rules and principles, which is designed mainly for listed companies. Since the provisions of CGC are recommendations by nature, the company need not follow all of them. However, where the company does not comply, it has to provide an explanation in its corporate governance report. The "comply or explain" approach has been mandatory for listed companies since 1 January 2006.

AS Baltika adheres to all applicable laws and regulations. As a public company, AS Baltika also observes the rules of Nasdaq Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, AS Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, corporate governance report contains information on the annual General Meeting taken place in 2017, the Supervisory Board, the Management Board and explains AS Baltika's governance structure and processes.

CGC Article 1.3.2.

Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

AS Baltika did not follow this recommendation in 2021 due to the COVID-19 pandemic. Annual general meeting was held without convening the meeting and therefore neither Management Board, Supervisory Board, nor auditors were present.

CGC Article 1.3.3.

Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.

AS Baltika held its 2 annual general meetings - the first with a voting period of 13-19 January and the second with a voting period of 14-21 April, both without convening a meeting, therefore the main means of voting was of communication equipment, although the alternative to vote at the premises of AS Baltika was available too.

At the first general meeting, one shareholder voted on paper, the rest digitally, and at the second general meeting, everyone voted digitally (e-mails with digitally signed voting ballots).

CGC Article 1.3.4.

Profit distribution shall be considered in General Meeting as a separate agenda item and a separate resolution shall be passed regarding it.

At AS Baltika General Meeting held without convening the meeting resolved the profit distribution as a separate item on the agenda.

CGC Article 2.2.7.

Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, AS Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, AS Baltika discloses the total amount of remuneration expense to members of the Supervisory Board and Management Board in the management report section of its interim and annual reports. In 2021, the figure amounted to 453 thousand euros. The contractual severance benefits of members of the Management Board are 0 till 6-fold monthly remuneration depending on person due to service until becoming Management Board Member. The Chairman of the Management Board performance pay is depending on EBITDA with pre-condition that the company operating result is a profit. Member of Management Board performance pay is based on personal targets and the Group net result being a profit, with precondition also for payment if reaching personal targets being net profit. Baltika Group discloses the total amount of remuneration expense to the members of the Management Board in Note 26 of the Annual Report. Share option program that was approved on January 19, 2021, by General Meeting of Shareholders was issued to the Chairman of the Management Board.

CGC Article 3.2.5.

The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).

Annual General Meeting of shareholders decided on April 27, 2015 the emoluments of the members of the Supervisory Board. The remuneration of the chairman of the Supervisory Board amounts to 650 euros per month and the remuneration of a member of the Supervisory Board to 400 euros per month. A member of the Supervisory Board is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions.

In 2021 nor 2020 no conflicts of interests occurred.

CGC Article 5.6.

The issuer shall disclose the dates and places of meetings with analysts, and presentations and press conferences organized for analysts, investors or institutional investors on its website. The issuer shall enable shareholders to attend the above meetings and shall make the texts of the presentations available on its website.

In accordance with the rules of the Nasdaq Tallinn Stock Exchange, AS Baltika first discloses all material and price sensitive information through the stock exchange system. The information disseminated at meetings and press conferences is limited to previously disclosed data. All information that has been made public, including presentations made at meetings, is available on the Baltika Group's website (www.baltikagroup.com).

As a rule, the issuer cannot enable other shareholders to attend the meetings held with institutional investors and analysts. To ensure the objectivity and unbiased nature of the meetings, institutional investors observe internal rules which do not allow third parties to attend such meetings.

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with AS Baltika's Articles of Association, the auditor(s) is (are) appointed by the General Meeting of shareholders for the performance of a single audit or for a specific term. The Annual General Meeting which was held without convening the meeting resolved on April 21, 2021 to AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2021. Independent Auditor's Report of 2021 will be signed by certified auditor in charge Eva Jansen-Diener. The audit firm is chosen based on the received offer with the best quality-price ratio –the auditor's independence is ensured by following rotation rules applicable to listed entities in EU.

The audit fee is fixed in an agreement which is concluded by the Management Board. In the notice of the Annual General Meeting, Baltika Group publishes the information required by the Commercial Code (Section 294 Subsection 4) that does not include the auditor's fee. AS Baltika does not disclose the auditor's fee because the disclosure of such sensitive information would impair the competitive position of the audit firm (CGC Article 6.2.1.).

Under the law, the agreement entered into by an audit firm is governed by International Standards on Auditing, the Auditors Activities Act and the risk management policies of the audit firm that do not require the auditor to submit a memorandum on the issuer's non-compliance with the Corporate Governance Code. Accordingly, the agreement signed between AS Baltika and its audit firm does not include a corresponding article and the auditor does not submit such a memorandum (CGC Article 6.2.4.).

Subsection §24^2 (4) of the Accounting Act

A large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's Management Board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

AS Baltika has not deemed it necessary to implement a diversity policy, as AS Baltika always considers the best interest of AS Baltika in the recruitment of staff and Management Board members and therefore makes the decisions based on the education, skills and previous experience of the person on a gender neutral and non-discriminatory basis.

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

AS Baltika is a public limited company, whose governing bodies are the shareholders' General Meeting, the Supervisory Board and the Management Board.

General meeting

The general meeting is AS Baltika's highest governing body. General meetings may be annual or extraordinary. The Annual General Meeting convenes usually once a year within six months after the end of the Baltika Group's financial year. An extraordinary General Meeting is called by the Management Board when the Baltika Group's net assets based on audited results have declined below the level required by the law and there is over 2 months to annual General Meeting of shareholders or when calling of a meeting is demanded by the Supervisory Board, the auditor, or shareholders whose voting power represents at least one tenth of the AS Baltika's share capital. A General Meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a General Meeting is determined at 8 a.m. at the date of the General Meeting.

The Annual General meeting was held without convening the meeting and voting took place January 19, 2021. The resolutions of the general meeting of shareholders were voted by 4 shareholders, whose shares represented 48,761,186 votes or 90.17 % of the total share capital. If a shareholder abstained, he/she was deemed to have voted against. The second general meeting of shareholders was held on April 21, 2021, where the Baltika Group was approved company's 2020 annual report, profit allocation proposal for 2020, extension of the term of office of member of the Supervisory Board, nomination of AS PricewaterhouseCoopers as the auditor.

Shareholders with significant share of AS Baltika's ordinary shares at the end of 2021 were KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account) (89.73%).

No shareholders have shares that grant them a right for specific control. AS Baltika is unaware of any shareholders having concluded any voting agreements.

Supervisory Board

The Supervisory Board plans the activities of AS Baltika, organises the management and supervises the activities of the Management Board. The Supervisory Board meets according to the need but not less frequently than once every three months. A meeting of the Supervisory Board has a quorum when more than half of the members participate. A resolution of the Supervisory Board is adopted when more than half of the members of the Supervisory Board who participate in the meeting vote in favour. Each member of the Supervisory Board has one vote. There were 11 meetings of the Supervisory Board and Supervisory Board members attended most of the meetings in 2021.

According to the Articles of Association, AS Baltika's Supervisory Board has three to seven members. The members are elected by the general meeting for a period of three years.

Supervisory Board member Lauri Kustaa Äimä owns 231,578 ordinary shares of AS Baltika i.e. 0.4% as at the end of 2021.

In addition to those indicated in related party disclosure in the financial statements, Supervisory Board members did not have any investments above 5% that is a business partner of Baltika Group.

Audit Committee

AS Baltika has an audit committee, with rules of procedure approved by Supervisory Board. The audit committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, and the external audit of the consolidated financial statements. The committee is also responsible for making recommendations in relation to the above issues to prevent or eliminate problems and inefficiencies.

The audit committee reports to the Supervisory Board and its members are appointed and removed by the Supervisory Board. The committee has two to five members whose term of office is three years.

The members of the audit committee are Maigi Pärnik-Pernik and Marin Käärik-Anton.

The remuneration of the Audit Committee members is 150 euros per month.

In 2021 the audit committee gathered for 2 separate meetings. On February 19, 2021 the CFO´s gave an overview of the results of the previous financial year and reviewed the comments of the audit process. On 22 March 2021, the current situation was mapped, and the audit companies' offers for the next financial year were presented.

Information in public interest entities Management report regarding services from auditor

During 2021 the auditor of AS Baltika has not provided additional services to the Group.

Management Board

The Management Board is a governing body, which represents and manages AS Baltika in its daily activities in accordance with the law and the Articles of Association. The Management Board must act in the best economic interests of the company. The members of the Management Board elect a chairman from among themselves who organises the activities of the Management Board. Every member of the Management Board may represent the company in all legal acts.

To ensure effective and efficient risk management and internal control, the Management Board:

- Analyses the risks related to its business and financial targets;
- Prepares relevant internal rules and regulations;
- Develops forms and instructions for the preparation of financial statements required for making management decisions;
- Ensures operation of the control and reporting systems.

The Management Board does its best to ensure that the Group’s parent company and all entities belonging to the Group comply with governing laws and regulations.

According to the Articles of Association, AS Baltika’s Management Board may have two to five members who are elected by the Supervisory Board for a period of three years. The supervisory Board may also remove a member of the Management Board.

Amendments of the Articles of Association are made according to Commercial Code, which says that resolution on amendment of the articles of association shall be adopted if at least two-thirds of the votes of the shareholders who participate in the meeting are in favour. A resolution on amendment of the articles of association shall enter into force as of the making of a corresponding entry in the commercial register.

AS Baltika’s management board has two members: Flavio Perini and Brigitta Kippak.

At the meeting held on 1 June, the Supervisory Board recalled Triinu Tarkin from the position of Member of the Management Board and Chief Financial Officer on the basis of her application as of 4th June 2021. At the meeting on June 1, the Supervisory Board elected Brigitta Kippak, Chief Operating Officer, as a new member of the Management Board from the same day. Brigitta Kippak is not a member of the Management Board or

Supervisory Board of any other company and owns 1,575 ordinary shares 0.0029% of the share capital of AS Baltika as of the end of 2021.

Management Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika Group.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2021 consolidated financial statements as presented on pages 37 to 86.

The Management Board confirms that:

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

2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;

3. the Group is going concern.

Flavio Perini
Chairman of the Management Board, CEO
28 March 2022

Brigitta Kippak
Member of Management Board, COO
28 March 2022

2021 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2021	31 December 2020
ASSETS			
Current assets			
Cash and cash equivalents	4	614	1,427
Trade and other receivables	5	696	318
Inventories	6	2,491	3,467
Total current assets		**3,801**	**5,212**
Non-current assets			
Deferred income tax asset	7	80	140
Other non-current assets	8	172	111
Property, plant and equipment	9	855	1,218
Right-of-use assets	11	5,956	9,199
Intangible assets	10	631	597
Total non-current assets		**7,694**	**11,265**
TOTAL ASSETS		**11,495**	**16,477**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	364	252
Lease liabilities	11	1,692	3,127
Trade and other payables	13,14	2,438	3,019
Total current liabilities		**4,494**	**6,398**
Non-current liabilities			
Borrowings	12	2,425	874
Lease liabilities	11	4,264	6,493
Total non-current liabilities		**6,689**	**7,367**
TOTAL LIABILITIES		**11,183**	**13,765**
EQUITY			
Share capital at par value	15	5,408	5,408
Reserves	15	4,431	3,931
Retained earnings		-6,627	-6,250
Net loss for the period		-2,900	-377
TOTAL EQUITY		**312**	**2,712**
TOTAL LIABILITIES AND EQUITY		**11,495**	**16,477**

The Notes presented on pages 42-86 are an integral part of these consolidated Financial Statements.

2021 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note	2021	2020
Revenue	16,17	11,770	19,480
Client bonus provision	14,17	0	250
Revenue after client bonus provision		11,770	19,730
Cost of goods sold	18	-5,650	-10,054
Gross profit		**6,120**	**9,676**
Distribution costs	19	-8,084	-12,234
Administrative and general expenses	20	-1,467	-2,353
Other operating income (-expense)	22	926	5,442
Operating loss		**-2,505**	**531**
Finance costs	23	-330	-761
Loss before income tax		**-2,835**	**-230**
Income tax expense	24	-65	-147
Net loss for the period		**-2,900**	**-377**
Total comprehensive income loss for the period		**-2,900**	**-377**
Basic earnings per share from net loss for the period, EUR	25	-0.05	-0.01
Diluted earnings per share from net loss for the period, EUR	25	-0.05	-0.01

The Notes presented on pages 42-86 are an integral part of these consolidated Financial Statements.

2021 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2021	2020
Cash flows from operating activities			
Operating loss		-2,505	531
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	18,19,20,22	3,601	4,631
Gain (loss) from sale, impairment of PPE, non-current assets, net		-148	130
Other non-monetary adjustments		500	-3,770
Changes in working capital:			
Change in trade and other receivables	5,7,8	-379	414
Change in inventories	6	976	4,177
Change in trade and other payables	13	-581	-1,099
Interest paid and other financial expense		-34	-120
Net cash generated from operating activities		**1,430**	**4,894**
Cash flows from investing activities			
Acquisition of property, plant and equipment, intangibles	9,10	-369	-503
Proceeds from disposal of PPE		0	43
Net cash used in investing activities		**-369**	**-460**
Cash flows from financing activities			
Received borrowings	12	0	3,550
Repayments of borrowings	12	-293	-116
Change in bank overdraft	12	1,985	-990
Prepayments of finance lease		-8	-1
Prepayments of lease liabilities, principle	12	-3,284	-5,096
Repayments of lease liabilities, interest	12	-274	-618
Net cash generated from (used in) financing activities		**-1,874**	**-3,271**
Total cash flows		**-813**	**1,163**
Cash and cash equivalents at the beginning of the period	4	**1,427**	**264**
Cash and cash equivalents at the end of the period	4	**614**	**1,427**
Change in cash and cash equivalents		**-813**	**1,163**

The Notes presented on pages 42-86 are an integral part of these consolidated Financial Statements.

2021 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
Balance as at 31 Dec 2019	**5,408**	**4,045**	**-6,250**	**3,203**
Loss for the period	0	0	-377	-377
Total comprehensive income	**0**	**0**	**-377**	**-377**
Increase of subordinated loan	0	3,111	0	3,111
Reduction of subordinated loan	0	-3,225	0	-3,225
Balance as at 31 December 2020	**5,408**	**3,931**	**-6,627**	**2,712**
Loss for the period	0	0	-2,900	-2,900
Total comprehensive loss	**0**	**0**	**-2,900**	**-2,900**
Increase of subordinated loan	0	500	0	500
Balance as at 31 December 2021	**5,408**	**4,431**	**-9,527**	**312**

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

The Notes presented on pages 42-86 are an integral part of these consolidated Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Ivo Nikkolo , Monton and Baltman . Baltika employs a vertically integrated business model, which means that it controls various stages of the fashion process: design, supply chain management, distribution/logistics, sales arrangements. As at 31 December 2021, Group had 34 Baltika's retail-stores in three markets - in the Baltics (the end of 2020, 61 stores in four markets). As at 31 December 2021 Baltika Group employed 173 people (31 December 2020: 277).

The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange. The largest shareholder and the only company holding more than 20% of shares (Note 15) of AS Baltika is KJK Fund Sicav-SIF (on ING Luxembourg S.A. account).

AS Baltika (the Parent company) (registration number: 10144415, address: Valukoja 10, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2021 was operating in retail markets in Estonia, Latvia, Lithuania.

The consolidated financial statements prepared for the financial year ended at 31 December 2021 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group): OÜ Baltika Retail, OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva (see Note 27 for group structure).

The Management Board of AS Baltika authorised these consolidated financial statements on 28 March 2022. Pursuant to the Commercial Code of the Republic of Estonia, the Annual Report is subject to approval by the Supervisory Board of the Parent company and the Annual General Meeting of shareholders.

Basis of preparation

The Group's 2021 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Adoption of New of Revised Standards and Interpretations

Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2020.

Covid-19-Related Rent Concessions – Amendments to IFRS 16

(effective for annual periods beginning on or after 1 June 2020)

The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. The amendment has an impact for the Group and 2020 Annual report accounting takes already into account the change.

Covid-19-Related Rent Concessions – Amendments to IFRS 16
(effective for annual periods beginning on or after 1 April 2021)

In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The amendment has an impact for the Group and 2021 Annual report accounting takes already into account the change.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01 January 2022, and which the Group has not early adopted.

Classification of liabilities as current or non-current – Amendments to IAS 1
(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1
(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU)

The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies

(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU)

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates

(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU)

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Principles of consolidation, accounting for business combinations and subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All subsidiaries have been consolidated in the Group's financial statements.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date on which control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the

Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the local currency. The functional currency of the Parent company and subsidiaries located in Baltics is euro. The consolidated financial statements have been prepared in euros.

Financial statements of foreign operations

The results and financial position of the foreign subsidiaries of the Group are translated into presentation currency as follows:

- Assets and liabilities are translated into euros at the closing rate at the date of the balance sheet;
- Income and expenses for statement of profit and loss are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate of the balance sheet date.

When a subsidiary is partially or wholly disposed through sale, liquidation, repayment of share capital or abandonment, the exchange differences deferred in equity are reclassified to profit or loss.

Foreign currency transactions and balances

During the year, all foreign currency transactions of the Group have been translated to functional currencies based on the foreign currency exchange rates of the applicable Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the applicable Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses, including arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognised in the statement of profit and loss as income or expenses of that period.

Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under "Other operating income (-expense)" (Note 22). Gains and losses arising from cash, cash equivalents and borrowings are recognised net method in "Finance Costs" (Note 23).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand as well as bank account balances, and term deposits with original maturities of three months or less. Bank overdrafts are shown under current or non-current borrowings (depending on the nature and term of the contract) in the statement of financial position. Cash and cash equivalents are measured at amortised cost.

Financial assets

Classification

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

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

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

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

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

Debt instruments

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

As at 31 December 2021 and 31 December 2020 and during 2021, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

Impairment of financial assets

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

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

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

The Group measures loss allowances as follows:

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method. This method is used for calculating interest income on the receivable in the following periods. Financial assets are adjusted for any loss allowance.

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

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

Receivables are generally included in current assets when they are due within 12 months after the balance sheet date. Such receivables whose due date is later than 12 months after the balance sheet date are reported as non-current assets.

Inventories

Inventories are recorded on the statement of financial position at cost, consisting of the purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their present location and condition.

Purchase costs include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour) and also a systematic allocation of fixed and variable production overheads (such as depreciation and maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management).

The FIFO method is used to account for the cost of inventories. Inventories are measured in the statement of financial position at the lower of acquisition/production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location.

An item of property, plant and equipment is subsequently stated at cost less any accumulated depreciation and any impairment losses. Subsequent expenditure incurred for an item of property, plant and equipment is recognised as a non-current asset when it is probable that the Group will derive future economic benefits from it and its cost can be measured reliably. The cost of reconstruction carried out on leased premises is depreciated over the shorter of the useful life of the asset and the lease term. Other maintenance and repair costs are expensed when incurred.

Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

• buildings and structures		
-rental space-related assets	5-7	years;
• machinery and equipment	2-7	years;
• other fixtures	2-10	years

At each balance sheet date, the appropriateness of depreciation rates, methods and the residual value is assessed. When the residual value of the asset exceeds its carrying amount, the depreciation of the asset is ceased.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in statement of profit or loss under “Other operating income (expenses)”.

Intangible assets (excluding goodwill)

An intangible asset is initially recognised at its acquisition cost, comprising its purchase price, any directly attributable expenditure on preparing the asset for its intended use and borrowing costs that relate to assets that take a substantial period of time to get ready for use. After initial recognition, an intangible asset is carried at its acquisition cost less any accumulated amortisation and impairment losses.

Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (5-50 years).

Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3-10 years).

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of non-controlling interest in the acquiree. Goodwill which arose in the acquisition of a business is recognised as an intangible asset in the consolidated financial statements. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is immediately recognised under "Other operating income".

At the transaction date, goodwill is recognised in the statement of financial position at its acquisition cost. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill is not amortised. Goodwill is allocated to CGUs (cash generating units) for the purpose of impairment testing.

At each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value (if it is lower than its carrying amount).

Impairment of non-current assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but are tested annually for impairment, by comparing their carrying amount with the recoverable amount.

Assets that are subject to amortisation and depreciation and assets with infinite useful life (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

Assets which were written down are reviewed on each balance sheet date to determine whether their recoverable value has arisen. The reversal of the impairment loss is recorded in the statement of profit and loss of the financial year as a reduction of the impairment losses. Impairment loss recognised for goodwill is not reversed.

Leases

Group as a lessee

The group is as lessee in all lease agreements. The group leases various properties and commercial premises and computer equipment, smaller machines and equipment for shops. Rental contracts for properties and commercial premises are typically made for fixed periods of average 5 years but include, as a rule extension and termination options. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions.

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. A lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The group revises the lease term if there is a change in the non-cancellable period of a lease.

Initial measurement

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use asset is recorded on the separate line in the statement of financial position.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- makes adjustments specific to the lease, eg lease term, country, currency and security.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:
(a) fixed payments, less any lease incentives receivable;
(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates. Some of Group’s lease contracts contain variable lease payments;
(c) amounts expected to be payable by the lessee under residual value guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent measurement

After the commencement date, a lessee measures the right-of-use asset applying a cost model. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, a lessee shall measure the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability;
b) reducing the carrying amount to reflect the lease payments made; and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, there may be a need to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:
(a) there is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
(b) there is a change in the assessment of an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:
a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall

determine the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate unless the change in lease payments results from a change in floating interest rates.

A lessee shall account for a lease modification as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Group has used the exemption provided in IFRS 16 42 A and 42 B, whereby modifications arising directly from COVID-19 pandemic and all the following conditions are met is not considered a lease modification.
(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(b) any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession will meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and
(c) there is no substantive change to other terms and conditions of the lease.

The group has elected not to apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of computer equipment, smaller machines and equipment.

Payables to employees

Payables to employees contain the contractual right arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is to be paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability at the balance sheet date. In addition to the holiday pay, this liability also includes accrued social and unemployment taxes.

Provisions and contingent liabilities

Provisions for liabilities and charges resulting from restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Other obligations whose settlement is not probable or the amount of accompanying expenditure of which cannot be measured with sufficient reliability, but that in certain circumstances may become obligations, are disclosed as contingent liabilities in the notes to the financial statements.

Financial liabilities

All financial liabilities (trade payables, borrowings, bonds and other current and non-current borrowings) are initially recorded at the proceeds received, net of transaction costs incurred on trade date. The amortised cost of current liabilities normally equals their nominal value; therefore current liabilities are stated in the statement of financial position in their redemption value. Non-current liabilities are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is classified as current when it is due within 12 months after the balance sheet date or the Group does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Offsetting

Financial assets and financial liabilities are offset only when there exists a legally enforceable right and these amounts are intended to be settled simultaneously or on a net basis.

Share capital

Ordinary shares are classified in equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity item “Share premium” or in case of absence of share premium as a reduction of the equity item “Retained earnings”. Preference shares are classified in equity in case they meet the definition of equity instrument or if they form a compound financial instrument which includes a component that meets the definition of equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity by the equity instrument and as a reduction of the liability and equity in proportion by the compound financial instrument.

Compound financial instruments

Compound financial instruments issued by the Group can comprise of (i) convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value and (ii) preference shares which entitle the holder a guaranteed interest and subsequent conversion of the instrument into ordinary shares. Compound financial instruments are separated into liability and equity components based on the terms of the contract. On issuance of the compound financial instruments, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity. The carrying amount of the conversion option is not revalued in subsequent years. Transaction costs are apportioned between the liability and equity components of the compound financial instruments, based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Other reserves

Reserves, other than equity components of financial instruments, are set up in accordance with the resolution of the general meeting of shareholders and they can be used to offset losses from prior periods as well as to increase share capital. Payments shall not be made to shareholders from reserves.

Revenue recognition

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

Retail sales

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

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2021 and 31.12.2020 there is no material guarantee provision. If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

E-commerce

Revenue is recognised when control of the goods or services are transferred to the customer i.e. when the customer accepts delivery of those goods. Revenue is recognised by the value of the consideration received. Sales returns, actual and anticipated, are considered part of the total price of each sale transaction.

Wholesale

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

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

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

Other

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

Financing component

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

Interest income and expenses

Interest income/expenses have been recognised in the statement of profit and loss for all financial instruments that are measured at amortised cost using the effective interest rate method. The effective interest rate is a method for calculating the amortised cost of a financial asset or a financial liability or the method for allocating interest income/expenses to the respective period. The effective interest rate is the rate that discounts the expected future cash receipts/payments over the expected useful life of the financial asset or the financial liability to its carrying amount. In calculating the effective interest rate, the Group assesses all contractual terms of the financial instrument but does not consider future credit losses. All contractual major service fees paid or received between the parties that are an integral part of the effective interest rate, transaction costs and other additional taxes or deductions are used in the calculation. If a financial asset or a group of similar financial assets has been written down due to impairment, interest income is calculated on them using the same interest rate as was used for discounting the future estimated cash receipts in order to determine the impairment loss.

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the group and the amount of income can be measured reliably. When the receipt of interest is uncertain, interest income is recognised on a cash basis. Interest income is recognised in the line “Finance income”.

Segment reporting

Business segments are components of the Group that engage in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Management Board of the Parent company AS Baltika.

Segment results include revenues and expenses directly attributable to the segment and the relevant part that can be allocated to the particular segment either from external or internal transactions. Segment assets and liabilities include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by Estonian entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax of 20/80 of the amount paid out as dividends. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80.

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When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are paid.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Corporate income tax in other countries

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian company and its carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017.

Due to the new tax law, there is no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss or in other comprehensive income/equity in respect of deferred income tax assets/liabilities recognised through other comprehensive income/equity.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

In accordance with the local income tax laws, the net profit of companies located in Lithuania that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

Corporate income tax rates

	2021	2020
Lithuania	15%	15%

Deferred income tax is provided using the liability method. Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. The main temporary differences arise from depreciation and tax loss carryforwards. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares outstanding. Diluted earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares taking also into consideration the number of dilutive potential shares.

NOTE 2 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to estimates, Management uses certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include: assessment of net realizable value of inventories (Note 6, 18), estimation uncertainties and judgements made in relation to lease accounting (Note 11) and impairment testing of goodwill (Note 10).

Assessment of net realizable value of inventories (Note 6)

Upon valuation of inventories, the Management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 2,456 thousand euros as at 31 December 2021 and 3,337 thousand euros as at 31 December 2020). Upon assessment of net realizable value of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 2 thousand euros as at 31 December 2021 and 0 thousand euros as at 31 December 2020.

Assessment of lease accounting - determining the lease terms of contracts (Note 11)

The calculation of leased assets and financial liabilities depends on the lease period. Baltika Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, it it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the renewal (e.g. lease term, location of the store, leasehold improvements, etc). The Group included the renewal period as part of the lease term of leases of buildings leased for retail operations where after considering a number of relevant factors the Group concluded that it is reasonably certain that the Group will exercise an extension option.

After the commencement date, Baltika Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (Note 11).

The Management has made the assumption that each leased asset is used for the period of its lease contract or less when there is the contractual possibility and agreed plan to stop using the leased premises earlier

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Impairment testing of goodwill (Note 10)

The Management has performed an impairment test for goodwill that arose on the acquisition of the subsidiary SIA Baltika Latvija. Future expected cash flows based on the budgeted sales have been taken into consideration in determining the recoverable amount of the cash generating units (CGU). The future expected cash flows have been discounted using the expected rate of return in the particular market within the similar industry. If the recoverable amount of cash generating unit is lower than its carrying amount, an impairment loss is recognised. Impairment testing of goodwill is presented in Note 10.

NOTE 3 Financial risks

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

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

Market risk

Foreign exchange risk

In 2021 and 2020 all sales were made in euros. The Group's foreign exchange risk is related to purchases done and amounts owed in foreign currencies. The majority of raw materials used in production are acquired from the European Union and goods purchased for resale are acquired outside of the European Union. The main currencies used for purchases are EUR (euro) and USD (US dollar).

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

Average rates	2021	2020
USD (US dollar)	3.55%	2.03%

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

Balance-sheet date rates	
USD (US dollar)	-6.84%

Cash and cash equivalents (Note 4), trade receivables (Note 5) and borrowings (Note 12) are in euro and thereof not open to foreign exchange risk. Foreign exchange risk arises only from trade payables (Note 13).

If the foreign exchange rates (USD) in relation to the euro as of 31 December 2021 had been up to 6% higher (lower), the impact on the net loss for the year would have been +/- 0,2 thousand euros (2020: higher (lower) +/-7 thousand euros).

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The assessment of foreign exchange rate sensitivity to the 2021 result was based on the assumptions that the reasonably possible fluctuations in USD/EUR does not exceed +/-6%.

Impact of the potential change in the currency exchange rates on the net profit/loss arising from the translation of monetary assets and liabilities

	Impact 2021	Impact 2020
Trade and other payables	-0,2	-7
Total	**-0,2**	**-7**

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

Interest rate risk

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

The Group's interest rate risk arises mainly from current and non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. Interest rate risk is primarily caused by the potential fluctuations of Euribor and 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 2,341 thousand euros on 31 December 2021 and 778 thousand euros at 31 December 2020 were subject to a floating 6-month interest rate based on Euribor (Note 12). The remaining non-current borrowings at 31 December 2021 in the amount of 4,264 thousand euros and 6,493 thousand euros at 31 December 2020 are the present value of the lease liabilities recognized under IFRS 16, discounted at an average interest rate of 5%. The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

In 2021, the 6-month Euribor decreased from -0.526% at the beginning of the year to the year end -0.546%. In the beginning of 2022, the Euribor has fluctuated within -0.5%. Business analysts estimate that EURIBOR will not rise in 2022 significantly.

If floating interest rates on the borrowings had been one percentage point higher in the reporting period with all other variables held constant, the post-tax result for the year would have been 9 thousand euros lower (2020: 10 thousand euros post-tax loss lower). If the floating interest rates had been 0.1 percentage point lower, the post-tax result for the year would have been 1 thousand euros higher (2020: 1 thousand euros post-tax result higher).

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

Price risk

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

Credit risk

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

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Cash and cash equivalents

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

Cash and cash equivalents at bank classified by credit rating[1]

	31 Dec 2021	31 Dec 2020
A	343	1,381
B	239	12
Total (Note 4)	**582**	**1,393**

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

Receivables

As at 31 December 2021 the maximum exposure to credit risk from trade receivables (Note 5) amounted to 41 thousand euros (31 December 2020: 230 thousand euros) on a net basis after allowances.

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

Liquidity risk

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

The Group´s working capital is negative as at the end of the year as a result of the lease accounting. Due to IFRS 16 the next twelve months´ lease payments are recorded as short-term liabilities as of 31 December 2021 while the leased assets are non-current assets by the nature.

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, issuance of additional shares and monitors receivables and purchase contracts. The unused limit of Group´s overdraft facilities as at 31 December 2021 was 1,015 thousand euros (31 December 2020: 3,000 thousand euros). Management is on the opinion that negative working capital does not pose a risk for Group in meeting its obligations in 2022.

Financial liabilities by maturity as at 31 December 2021

		Undiscounted cash flows[1]			
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
Loans (Note 12)[2]	2,781	93	275	2,436	2,804
Lease liabilities (Note 11)	5,956	721	1,809	4,277	6,806
Trade payables (Notes 13)	1,032	1,010	11	11	1,032
Other financial liabilities (Note 13)	148	148	0	0	148
Total	**9,917**	**1,971**	**2,095**	**6,724**	**10,789**

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Financial liabilities by maturity as at 31 December 2020

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 12)[2]	1,101	5	241	869	1,115
Lease liabilities (Note 11)	9,620	1,058	2,703	6,650	10,411
Trade payables (Note 13)	1,044	979	20	45	1,044
Other financial liabilities (Note 13)	60	60	0	0	60
Total	**11,825**	**2,102**	**2,964**	**7,564**	**12,630**

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

[2]Used overdraft facilities are shown under loans based on the contractual date of payment.

Operational risk

The Group’s operations are mostly affected by the cyclical nature of economies in target markets and changes in competitive positions, as well as risks related to specific markets.

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

Improvement of flexibility plays an important role in increasing the Group’s competitiveness. Continuous efforts are being made to shorten the cycles of business processes and minimise potential deviations. This also helps to improve the relative level and structure of inventories and the fashion collections’ meeting consumer expectations. Group's business model was expensive and the share of fixed costs was high, which made it difficult to respond to external factors and demand. Therefore, Group started implementing changes in business model, management structure, procedures and information systems. Group is changing its supplier base, closed production units and reduced fixed costs which will be continued.

The most important operating risk arises from the Group’s inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted. To ensure good collections, the Group employs a strong team of designers who monitor and are aware of fashion trends by using internationally acclaimed channels.

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

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

Effects of the coronavirus

The spread of the COVID-19 virus and the related restrictions began to have an impact on the Group's financial results in the spring of 2020. In March 2020, various measures to prevent the spread of the virus were implemented in the Baltic States, which brought about drastic changes in the way of life and the economic environment, affecting the Group's day-to-day operations.
Since 2020, a new risk related to COVID-19 has arisen, i.e. the risk of shop closures due to national restrictions. The financial result of Baltika Group in 2021 was affected by the restrictions set to prevent the spread of COVID-19 in both spring and autumn. The Latvian and Lithuanian stores were completely closed from the beginning of the year until the spring, the Estonian stores for almost two months. The stores were fully opened in Lithuania on April 19, 2021, in Estonia on May 3, and in Latvia on June 3 The restrictions on COVID-19 continued in the second half of 2021 with the the re-closure of stores in Latvia from mid-October to mid-November. Until 21 December the stores were only open on weekdays. The e-shop has been working all the time at the same time. This risk varies, which may vary as a result of the Group: whether the store has direct access from the street, whether a subsidiary and/or a group is required to receive government support, how long the stores will be closed in 2021 due to a state restriction. Inventory management of this risk, cost management, etc. The coronavirus has been associated with a decrease in sales (see Note 17), a decrease in rental costs with government support (see Note 19) and a decrease in the payroll with government support (see Notes 19 and 20).
In 2020, a major risk was the spread of the coronavirus (COVID-19) and the insecurity of supplies from China, one of the largest suppliers. This risk was further reduced in 2021 by delivering more from closer countries.
The effects of the spread of the virus on the economic environment can lead to a number of different financial risks. Market risk may increase if an increase in the general level of risk leads to an increase in interest rates. Liquidity risk and capital risk may increase significantly if the cash flow from operating activities decreases as the economic environment deteriorates and other instruments need to be found to ensure liquidity.
Baltika Group is consistently monitoring changing risk assessments and analysing the effects of the virus on an ongoing basis. Management is on the opinion that the risks will not materialise in 2022 to such extent to endanger the Group's ability to continue as a going concern.

Capital management

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

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

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

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

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Net gearing ratio

	31 Dec 2021	31 Dec 2020
Total borrowings (Note 12)	8,745	10,341
Cash and cash equivalents (Note 4)	-614	-1,427
Net debt	8,131	8,914
Total equity	312	2,712
Net gearing ratio	**2606%**	**329%**

Fair value

The Group estimates that the fair values of the financial assets (Notes 4-5, 8) and liabilities (Notes 12-14) denominated in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 December 2021 and 31 December 2020.

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

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

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock exchange or some other active regulated market.
- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.
- Level 3: Financial instruments that are valued by assessment methods based on non-monitored inputs.

See more information about the carrying values of borrowings and about interest rates in Note 12.

NOTE 4 Cash and cash equivalents

	31 Dec 2021	31 Dec 2020
Cash at hand	32	34
Cash at bank and overnight deposits	582	1,393
Total	**614**	**1,427**

All cash and cash equivalents are denominated in euros.

For additional information, see also Note 3.

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NOTE 5 Trade and other receivables

	31 Dec 2021	31 Dec 2020
Trade receivables, net	41	230
Other prepaid expenses[1]	100	79
Tax prepayments and tax reclaims, thereof	47	1
Value added tax	47	1
Other current receivables[2]	508	8
Total	**696**	**318**

[1]Other prepaid expenses include prepaid lease expense of the stores and insurance expenses, prepayment for information technology services and other expenses of similar nature.

[2] Other current receivables include accrued interest, Paypal (e-store), payment centre receivables, receivable card payments.

As at 31 December 2021, Baltika Group's trade receivables and other receivables amounted to 696 thousand euros, increasing by 378 thousand euros compared to the end of the previous year. The increase is related to an amendment to a new loan agreement between KJK Fund Sicav-SIF, a major shareholder of the company, entered into on 31 December 2021, according to which KJK Fund Sicav-SIF will grant a subordinated loan of 500 thousand euros. The loan will be transferred to AS Baltika on 23 February 2022. Until the loan amount is received, this amount is included in other current receivables.

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

31 Dec 2021	Baltic region	Eastern European region	Other regions	Total
Not due	35	0	0	35
Up to 1 month past due	0	0	0	0
1-3 months past due	4	0	0	4
3-6 months past due	0	0	0	0
Over 6 months past due	0	2	0	2
Total	**39**	**2**	**0**	**41**

31 Dec 2020	Baltic region	Eastern European region	Other regions	Total
Not due	213	0	0	213
Up to 1 month past due	0	0	0	0
1-3 months past due	6	0	0	6
3-6 months past due	0	0	0	0
Over 6 months past due	9	2	0	11
Total	**228**	**2**	**0**	**230**

For the wholesale customers' credit policy was based on the next actions: monitoring credit amounts, past experience and other factors are taken into consideration.

All trade and other receivables are denominated in euros.

For additional information, see also Note 3, and 2.

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NOTE 6 Inventories

	31 Dec 2021	31 Dec 2020
Fabrics and accessories	2	53
Allowance for impairment of fabrics and accessories	0	-53
Finished goods and goods purchased for resale	2,556	3,587
Allowance for impairment of finished goods and goods purchased for resale	-100	-250
Prepayments to suppliers	33	130
Total	**2,491**	**3,467**

In addition to the allowance for impairment of 100 thousand euros (2020: 250 thousand euros) to reduce finished goods and goods purchased for resale to net realizable value, the Group recognised 143 thousand euros during 2021 (2020: 169 thousand euros) as an expense for stock-take variances and inventory write offs. Allowance for impairment of fabrics and accessories in the amount of 0 thousand euros on 31 December 2021 (31.12.2020: 53 thousand euros). Impairment allowance and write-off costs were recognised in the statement of profit and loss online “Cost of goods sold”.

NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2021

	Total
Deferred income tax asset	
On PPE and other tax base differences[1]	0
On tax loss carry-forwards	80
Total	**80**
Deferred income tax asset, net, thereof	**80**
Non-current portion	80
Deferred income tax income (-expense) (Note 24)	**-65**

Deferred income tax as at 31 December 2020

	Total
Deferred income tax asset	
On PPE and other tax base differences[1]	0
On tax loss carry-forwards	140
Total	**140**
Deferred income tax asset, net, thereof	**140**
Non-current portion	140
Deferred income tax expense (Note 24)	**-140**

[1]Income tax liability can be settled against deferred tax assets in one country/company, therefore a deferred tax asset is recognised.

The recovery of the deferred income tax asset arising from tax loss carry-forwards is dependent on future taxable profits of subsidiaries that have to exceed the existing losses to be carried forward. An analysis of expected future profits was carried out when preparing the financial statements. The presumption of profit is dependable on attainment of each respective company strategic goals. The deferred tax asset resulting from losses carried forward is recognised to the extent that the realisation of the related tax benefit through the future profits is probable.

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The Group recognised deferred income tax assets in the statement of financial position as at 31 December 2021 and 2020 for subsidiary in Lithuania in respect of losses and other tax base differences that can be carried forward against future taxable income. Losses and other tax base differences can be used either for unlimited period in Lithuania to cover 70% of the year tax profit.

NOTE 8 Other non-current assets

	31 Dec 2021	31 Dec 2020
Non-current portion of lease prepayments[1]	172	111
Total other non-current assets	**172**	**111**

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

NOTE 9 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments, PPE not in yet in use	Total
31 December 2019					
Acquisition cost	**2,746**	**1,004**	**4,235**	**5**	**7,990**
Accumulated depreciation	-1,987	-856	-3,464	0	-6,307
Net book amount	**759**	**148**	**771**	**5**	**1,683**
Additions	126	64	109	35	334
Disposals	-17	-71	-67	0	-155
Reclassifications	40	0	0	-40	0
Depreciation charge	-317	-47	-280	0	-644
31 December 2020					
Acquisition cost	**2,384**	**937**	**3,703**	**0**	**7,024**
Accumulated depreciation	-1,794	-843	-3,169	0	-5,806
Net book amount	**590**	**94**	**534**	**0**	**1,218**
Additions	28	47	118	35	**228**
Disposals	-15	-13	-62	0	-90
Depreciation charge	-278	-31	-192	0	-501
31 December 2021					
Acquisition cost	**2,412**	**984**	**3,821**	**35**	**7,252**
Accumulated depreciation	-2,087	-887	-3,423	0	-6,397
Net book amount	**325**	**97**	**398**	**35**	**855**

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NOTE 10 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
31 December 2019					
Acquisition cost	**885**	**643**	**46**	**154**	**1,728**
Accumulated depreciation	-763	-429	0	0	-1,192
Net book amount	**122**	**214**	**46**	**154**	**536**
Additions	96	0	73	0	**169**
Disposals	-7	0	-46	0	**-53**
Amortisation charge	-23	-32	0	0	**-55**
31 December 2020					
Acquisition cost	**974**	**643**	**73**	**154**	**1,844**
Accumulated depreciation	-786	-461	0	0	-1,247
Net book amount	**188**	**182**	**73**	**154**	**597**
Additions	141	0	0	0	**141**
Disposals	0	0	-73	0	**-73**
Reclassification	0	53	0	0	**53**
Amortisation charge	-58	-29	0	0	**-87**
31 December 2021					
Acquisition cost	**1,115**	**643**	**0**	**154**	**1,912**
Accumulated depreciation	-844	-437	0	0	-1,281
Net book amount	**271**	**206**	**0**	**154**	**631**

Trademarks with a net book value of 206 thousand euros (31 December 2020: 182 thousand euros) included acquired trademark Ivo Nikkolo, which remaining amortization period is 5 years. As at the balance sheet date, the depreciation rate previously applied to the trademark was estimated. In the opinion of the management, the depreciation rate initially set was too conservative and did not take into account that Ivo Nikkolo's trademark is the core trademark of AS Baltika. The initial depreciation rate was set at 5% and after a review of the assessment at 2%.

Impairment tests for goodwill

The carrying value of goodwill as at 31 December 2021 in the amount of 154 thousand euros (31 December 2020: 154 thousand euros) is tested for impairment at each balance sheet date.

The carrying amount of goodwill applicable to CGUs (cash generating units) of SIA Baltika Latvija was tested for impairment at 31 December 2021. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

	Baltika Latvija	
Balance at 31 December	**2021**	**2020**
Carrying amount of goodwill	154	154
Growth in revenue[1]	2.0%	2.0%
Terminal growth rate[2]	2%	1.7%

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Budgeted gross margin[3]	57%	56%
Discount rate[4]	11.2%	10.2%
Difference between recoverable and carrying amount	698	4,826

[1]Management determined average annual growth in sales efficiency per square metre for the five-year period.
[2]Terminal growth rate used to extrapolate cash flows beyond the year 2025.
[3]Management determined the average gross margin based on the past performance and management's expectations for the future.
[4]Pre-tax discount rate applied to the cash flow projections (WACC). The change in discount rates results from changes in industry indicators for the specific region.

The growth rates used for projections have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the projected future years in the respective region. The weighted average cost of capital (WACC) used was pre-tax and reflects specific risks applicable to the specific market and industry sector.

The test of SIA Baltika Latvija resulted in recoverable value exceeding the carrying amount of the cash generating unit and consequently no impairment losses have been recognised.

NOTE 11 Leases

This note provides information for leases where the group is a lessee.

Amounts recognised in the balance sheet

The balance sheet shows the following amounts of assets relating to leases:

	Right-of-use assets		
	Offices	Commercial premises	Total
1 January 2021			
Net book amount	**714**	**8,485**	**9,199**
Additions	0	1,040	1,040
Termination of lease contracts	0	-1,150	-1,150
Depreciation charge	-189	-2,944	-3,133
Net book amount 31.12.2020	**714**	**5,431**	**5,956**

Right-of-use assets include only lease contracts for offices and commercial premises.

	31 Dec 2021	31 Dec 2020
Lease liabilities		
Current	1,692	3,127
Non-current	4,264	6,493
Total lease liabilities	**5,956**	**9,620**

Detailed information on minimum lease payments by maturity is disclosed in Note 3.

Amounts recognised in the statement of profit or loss

The group's consolidated statement of profit or loss and other comprehensive income includes the following amounts relating to leases.

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	2021	2020
Interest expense (included in finance cost, Note 23)	274	618
Expense relating to short-term leases (included in operating expenses, Notes 18-20)	-875	-1,270
Depreciation charge for right-of use assets (included in operating expenses, Notes 18-20)	3,140	5,252
Expense relating to leases of low-value assets (included in operating expenses, Notes 18-20)	55	85
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses, Notes 18-20)	4	10
Total	**2,598**	**4,695**

The total cash outflow for leases in 2021 was 3,558 thousand euros (IFRS 16) (2020: 5,714 thousand euros).

NOTE 12 Borrowings

	31 Dec 2021	31 Dec 2020
Current borrowings		
Current portion of bank loans	356	227
Current portion of finance lease liabilities	8	25
Total	**364**	**252**
Non-current borrowings		
Non-current bank loans	356	778
Overdraft	1,985	0
Other non-current liabilities	84	96
Total	**2,425**	**874**
Total borrowings	**2,789**	**1,126**

Borrowings are denominated in euros. Management estimates that the carrying amount of the Group´s financial liabilities does not significantly differ from their fair value (Note 3). During the reporting period, the Group has made bank loan repayments in amount of 293 thousand euros (2020: 116 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 330 thousand euros (2020: 761 thousand euros), including interest expense from lease liabilities. Baltika Group using the bank's overdraft facility in the amount of 1,985 thousand euros (limit is 3,000 thousand euros) at the end of the year. Unused part of overdraft was 1,015 thousand euros (31.12.2020: 3,000 thousand euros).

Changes in 2020

In November, KJK Fund Sicav-SIF, a major shareholder of the company, and AS Baltika signed a new amendment to the loan agreement, according to which KJK Fund Sicav-SIF will grant an additional loan of 1,000 thousand euros, with an interest rate of 6% per annum and repayment date in May 2022. The loan was drawn down in the first quarter of 2020.

In accordance with creditors' claims restructuring plan approved on 19 June 2020 the overdraft agreement (in the amount of 3,000 thousand euros) was extended till 31 December 2023 and the investment loan repayment schedule was changed in a way that repayments will be made from June 2021 till December 2023.

In August, KJK Fund Sicav-SIF, a major shareholder of the company, and AS Baltika signed a new amendment to the loan agreement, according to which KJK Fund Sicav-SIF will grant a loan of 2,550 thousand euros, with an interest rate of 6% per annum and repayment date in December 2024. The loan was transferred on September 2020.

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An amendment to the loan agreement was signed in December, according to which, as of December 2020, the above-mentioned loan of 2,550 thousand euros is non-interest bearing and the repayment date is not fixed and is therefore classified as subordinated loan that is recorded in equity.

Interest carrying loans of the Group as at 31 December 2021

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	2,697	EURIBOR +2,00%
Total	**2,697**	

Interest carrying loans of the Group as at 31 December 2020

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	1,006	EURIBOR +2.0%
Total	**1,006**	

The Group's collaterals for bank borrowings

As at 31 December 2021 and 31 December 2020 the bank borrowings were secured with following asset types:

- Commercial pledge to movables;
- Trademarks;
- Shares of the subsidiaries;
- Cash equivalents on the bank accounts.

As at 31 December 2021 carrying amount of assets pledged was 4,437 thousand euros, including inventories in amount of 2,491 thousand euros, property, plant and equipment in amount of 855 thousand euros, intangible assets in amount of 477 thousand euros and cash on the bank accounts 614 thousand euros.

As at 31 December 2020 carrying amount of assets pledged was 6,555 thousand euros, including inventories in amount of 3,467 thousand euros, property, plant and equipment in amount of 1,218 thousand euros, intangible assets in amount of 443 thousand euros and cash on the bank accounts 1,427 thousand euros.

For additional information, see also Note 3.

Changes in liabilities arising from financing activities

	31.12.2020	Cash flows	New leases	Reclassified to equity	Other	31.12.2021
Current portion of long-term bank loans	**227**	-293	0	0	422	**356**
Bank overdrafts	**0**	1,985	0	0	0	**1,985**
Other current loans	**25**	-8	0	0	-9	**8**
Non-current bank loans	**778**	0	0	0	-422	**356**
Lease liabilities	**9,620**	-3,558	1,040	0	-1,146	**5,956**
Other non-current loans	**96**	0	0	0	-12	**84**
Total liabilities from financing activities	**10,746**	**-1,874**	**1,040**	**0**	**-1,167**	**8,745**

	31.12.2019	Cash flows	New leases	Reclassified to equity	Other	31.12.2020
Current portion of long-term bank loans	**698**	-117	0	0	-354	**227**
Bank overdrafts	**990**	-990	0	0	0	**0**
Convertible bonds	**43**	-43	0	0	25	**25**
Non-current bank loans	**424**	0	0	0	354	**778**

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Lease liabilities	**17,779**	-5,714	1,713	0	-4,158	**9,620**
Other non-current loans	**64**	3,550	0	-2,700	-818	**96**
Total liabilities from financing activities	**19,998**	**-3,314**	**1,713**	**-2,700**	**-4,951**	**10,746**

The Other column includes the reduction of liabilities through reorganisation, effect of reclassification between current and non-current portion of bank loans and finance leases due to the passage of time; the effect of capitalization and amortization of the loan transaction costs and accrued but not yet paid interest expense and termination of lease contracts.

NOTE 13 Trade and other payables

	31 Dec 2021	31 Dec 2020
Current liabilities		
Trade payables	1,032	1,044
Tax liabilities, thereof	759	1,203
Personal income tax	68	164
Social security taxes and unemployment insurance premium	329	406
Value added tax	361	633
Other taxes	1	0
Payables to employees[1]	329	391
Customer prepayments	57	98
Other accrued expenses	140	35
Other current payables	16	18
Total	**2,333**	**2,789**

[1]Payables to employees consist of accrued wages, salaries and vacation accrual.

Tax authorities are entitled to check the Group's tax accounting up to within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. The tax legislation of the countries the Group is operating which was enacted or substantively enacted at the end of the reporting period may be subject to varying interpretations. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the entities in the Group.

Trade payables and other accrued expenses in denominated currency

	31 Dec 2021	31 Dec 2020
EUR (euro)	1,045	940
USD (US dollar)	3	122
Total	**1,048**	**1,062**

For additional information, see also Note 3.

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NOTE 14 Provisions

Current provisions	31 Dec 2021	31 Dec 2020
Other provision[1]	105	230
Total	**105**	**230**

Changes in 2020

In 2020, the Group reduced the client bonus provision by 250 thousand euros (2019: 81 thousand euros). Client bonus provision reversal was recognized in the income statement line "Client bonus provision".

Short description of the provision

[1] Other provision includes provision of expenses related to store closures in 2021 and 2022.

NOTE 15 Equity

Share capital

	31 Dec 2021	31 Dec 2020
Share capital	5,408	5,408
Number of shares (pcs)	54,079,485	54,079,485
Nominal value of share (EUR)	0.10	0.10

As at 31 December 2021 and 31 December 2020 shares comprise only ordinary shares, which are listed on the Nasdaq Tallinn.

Change in the number of shares

	Number of shares
Number of shares 31 December 2020	54,079,485
Number of shares 31 December 2021	**54,079,485**

As at 31 December 2021 and 2020, under the Articles of Association, the company's minimum share capital is 2,000 thousand euros and the maximum share capital is 8,000 thousand euros. As at 31 December 2021 and 31 December 2020 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange and all shares have been paid for.

Reserves

	31 Dec 2021	31 Dec 2020
Other reserves	4,431	3,931

Changes in year 2020

In accordance with creditors' claims restructuring plan approved on 19 June 2020 loan from KJK Fund SICAV-SIF was reduced from 4,045 thousand euros to 820 thousand euros.

On 30 December, amendments to loan agreements with KJK Fund SICAV-SIF and its holding company were signed and in amount of 3,931 thousand euros was reclassified as subordinated loans.

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Other reserves in the amount of 3 931 thousand euros at 31 December 2020 and 4,045 thousand euros as of 31 December 2019 represents the non-interest-bearing loan with no fixed repayment date from KJK Sicav-SIF.

Changes in year 2021

The increase in the reserve is related to the amendment of the new loan agreement entered into between the company's major shareholder KJK Fund Sicav-SIF on 31 December 2021, according to which KJK Fund Sicav-SIF granted a subordinated loanin the amount of 500 thousand euros. The loan was received by AS Baltika on 23 February 2022. Until the transfer, the amount has been recognized under other short-term receivables.

Shareholders as at 31 December 2021

	Number of shares	Holding
1. ING Luxembourg S.A.	48,526,500	89.73%
2. AS Genteel	1,297,641	2.40%
3. Clearstream Banking AG	1,069,624	1.98%
4. Members of Management and Supervisory Boards and persons related to them		
Entities connected to Supervisory Board not mentioned above	231,578	0.43%
5. Other shareholders	2,954,142	5.46%
Total	**54,079,485**	**100%**

Shareholders as at 31 December 2020

	Number of shares	Holding
1. ING Luxembourg S.A.	48,526,500	89.73%
2. AS Genteel	1,297,641	2.40%
3. Clearstream Banking AG	1,070,500	1.98%
4. Members of Management and Supervisory Boards and persons related to them		
Entities connected to Supervisory Board not mentioned above	1,529,219	2.83%
5. Other shareholders	2,953,266	5.46%
Total	**54,079,485**	**100%**

The shares of the Parent company are listed on the Nasdaq Tallinn. After registering the increase of AS Baltika share capital in Commercial Register on August 13, 2019, KJK Fund Sicav-SIF (ING Luxembourg S.A. AIF ACCOUNT account) shareholding in AS Baltika increased and made the entity a controlling shareholder (shareholding of 89.73%).

NOTE 16 Segments

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

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

Description of segments and principal activities:

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

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- E-commerce segment – includes web sales. The largest sales are done in the Baltics. E-store and retail shops feature exactly the same items. The E-POS system allows the consumer to make a purchase in a retail store even if the corresponding product or a suitable number is not available in the store. After the purchase, the product is delivered to the parcel machine chosen by the customer, similar to the order made in the e-store, thereby improving the availability of the products.
- All other segments – consists of sale of goods to wholesale, franchise and consignation clients, materials and sewing services. None of these segments meet the reportable segments quantitative thresholds set out by IFRS 8 and are therefore aggregated into the All other segments category.

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

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

Measures of profit or loss, segment assets and liabilities have been measured in accordance with accounting policies used in the preparation of the financial statements, except for IFRS 16 measurement and recognition of right of use assets and lease liabilities.

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

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

	Retail segment	E-com segments	All other segments[1]	Total
2021 and as at 31 Dec 2021				
Revenue (from external customers)	9,785	1,866	120	11,770
Segment profit[2]	-435	129	31	-275
Incl. depreciation and amortisation	-412	-23	0	-435
Inventories of segments	1,915	0	0	1,915
2020 and as at 31 Dec 2020				
Revenue (from external customers)	16,996	2,152	333	19,481
Segment profit[2]	-653	381	74	-198
Incl. depreciation and amortisation	-618	-4	0	-622
Inventories of segments	2,643	0	0	2,643

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[1]All other segments include sale of goods to wholesale, franchise and consignation clients, materials and sewing services.
[2]The segment profit is the segment operating profit, excluding other operating expenses and income.

Reconciliation of segment operating profit to consolidated operating profit

	2021	2020
Total segment profit	-275	-198
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-1,689	-2,360
Administrative and general expenses	-1,467	-2,353
Other operating income (expenses), net	926	5,442
Operating profit (loss)	**-2,505**	**531**

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

Reconciliation of segment inventories to inventories on consolidated statement of financial position

	31 Dec 2021	31 Dec 2020
Total inventories of segments	1,915	2,643
Inventories in Parent company	576	824
Inventories on statement of financial position	**2,491**	**3,467**

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

	31 Dec 2021	31 Dec 2020
Retail	758	1,269
Assets in parent company	728	692
Total	**1,486**	**1,961**

NOTE 17 Revenue

	2021	2020
Sale of goods in retail channel	9,785	16,995
Sale of goods in wholesale and franchise channel	73	245
Sale of goods in e-commerce channel	1,866	2,153
Other sales	47	87
Total	**11,770**	**19,480**

Sales by geographical (client location) areas

	2021	2020
Estonia	6,976	9,906
Lithuania	2,029	4,977
Latvia	2,665	4,346
Finland	5	98
Russia	32	46
Ukraine	17	30
Germany	0	11
Austria	22	1
Other countries	24	65
Total	**11,770**	**19,480**

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Client bonus provision
The bonus program was cancelled on December 31, 2020.

NOTE 18 Cost of goods sold

	2021	2020
Materials and supplies	5,815	9,934
Changes in allowance of inventories (Note 6)	-165	120
Total	**5,650**	**10,054**

NOTE 19 Distribution costs

	2021	2020
Payroll costs[1]	3,059	5,267
Depreciation and amortisation (Note 9-11)	3,493	5,361
Operating lease expense (Note 11)[2]	-264	-442
Advertising expenses	578	612
Municipal services and security expenses	190	314
Fuel, heating and electricity costs	195	302
Information technology expenses	206	156
Fees for card payments	54	91
Consultation and management fees	61	69
Communication expenses	34	60
Travel expenses	9	27
Other sales expenses[3]	470	417
Total	**8,084**	**12,234**

[1]Payroll costs include reduction of expense as governments´ subsidies have been received either directly by group companies or indirectly by paying less due to employees receiving income directly from government.

[2]Operating lease (rent) expense is negative as rent discounts (reduction of the lease payments) related tothe stores was recognised and government´s subsidies to cover lease payments were received.

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

NOTE 20 Administrative and general expenses

	2021	2020
Payroll costs[1]	940	931
Depreciation and amortisation (Note 9-11)	108	591
Management, juridical-, auditor´s and other consulting fees	89	409
Information technology expenses	192	177
Fuel, heating and electricity expenses	9	60
Bank fees	54	36
Lease expense (Note 11)	4	10
Other administrative expenses[2]	71	139

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Total	**1,467**	**2,353**

[1]Payroll costs include reduction of expense as governments´ subsidieshave been received either directly by group companies or indirectly by paying lessdue to employees receiving income directly from government.

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

NOTE 21 Wages and salaries

	2021	2020
Payroll costs	3,124	4,911
Social security costs	875	1,287
Total	**3,999**	**6,198**

Baltika Group payroll costs decreased due to national wage subsidies in 2021, 319 thousand euros. Wage costs were also affected by a significant decrease in the number of employees related to the restructuring compared to 2020. In 2021, the average number of employees in Baltika Group was 223 (2020: 393).

NOTE 22 Other operating income (-expense)

	2021	2020
Gain (loss) from sale, impairment of PPE and immaterial assets	-115	-131
Other operating income[1]	1,213	5,721
Foreign exchange gain (-loss)	-12	-45
Fines, penalties and tax interest	0	-38
Other operating expenses	-160	-65
Total	**926**	**5,442**

[1] Other operating income - gain related to reorganisation of AS Baltika, see in more detail from Note 28 Reorganisation.

NOTE 23 Finance costs

	2021	2020
Interest cost	-330	-761
Total	**-330**	**-761**

In 2021, interest expense includes accounted interest expense from lease liabilities (IFRS 16) in the amount of 274 thousand euros (In 2020: 619 thousand euros).
For additional information, see Note 11 Leases.

NOTE 24 Income tax

	2021	2020
Deferred income tax income (-expense) (Note 7)	-61	-140
Tax expense	-4	-7
Total income tax income (-expense)	**-65**	**-147**

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Income tax calculated on the profits of the Group's subsidiaries based on the nominal tax rate differs from effective income tax expense for the reasons presented below.

Income tax for the year ended at 31 December 2021

	Total
Loss before tax	-2,835
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	-61
Income tax expense	**-4**
Deferred income tax income (-expense) (Note 7)	**-65**

Income tax for the year ended at 31 December 2020

	Total
Loss before tax	-230
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	-140
Income tax expense	**-7**
Deferred income tax income (-expense) (Note 7)	**-147**

NOTE 25 Earnings per share

Basic earnings per share

		2021	**2020**
Weighted average number of shares (thousand)	pcs	54,079	54,079
Net loss (thousands)	EUR	-2,900	-377
Basic earnings per share	**EUR**	**-0.05**	**-0.01**

Diluted earnings per share

Diluted earnings per share for the periods ended 31 December 2021 and 31 December 2020 are equal to basic earnings per share stated above. Diluted earnings per share is calculated by adjusting the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. In the periods ended 31 December 2021 and 31 December 2020, the Group had no dilutive potential ordinary shares.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in 2021 was 0.33 euros (2020: 0.14 euros).

NOTE 26 Related parties

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

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

- owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 15);
- members of the Management Board and the Supervisory Board[1];
- immediate family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Board and immediate family members;

[1]Only members of the Parent company Management Board and Supervisory Board are considered as key management personnel, as only they have responsibility for planning, directing and controlling Group activities.

Transactions with related parties

Purchases	**2021**	**2020**
Services from entities under the control of the members of the Management Board and Supervisory Board	9	24
Total	**9**	**24**

In 2021 and 2020, AS Baltika bought mostly management services from the related parties.

Balances with related parties

	31 Dec 2021	**31 Dec 2020**
Borrowings and interests (Note 12,13, 15)	3,992	3,992
Total	**3,992**	**3,992**

All transactions in 2021 as well as in 2020 and balances with related parties as at 31 December 2021 and 31 December 2020 were with entities under the control or significant influence of the members of the Management Board and Supervisory Board.

Compensation for the members of the Management Board and Supervisory Board

	2021	**2020**
Salaries of the members of the Management Board	440	278
Remuneration of the members of the Supervisory Board	13	11
Total	**453**	**289**

As at 31 December 2021 and 31 December 2020, the Group had two members of the Management Board and four members of the Supervisory Board.

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Changes in the Management Board in 2021

AS Baltika Supervisory Board, during the meeting held on 1st of June 2021, recalled Triinu Tarkin from the position of Group CFO and Management Board Member following her resignation. The mandate of Triinu Tarkin ended on 4th of June 2021. Additionally, the Supervisory Board of AS Baltika has appointed Brigitta Kippak into a newly created role of Chief Operating Officer (COO) and Member of the Management Board starting from 1st of June 2021 with a mandate of 3 years.

Changes in the Management Board in 2020

According to the decision of the Supervisory Board held in 11 March, Flavio Perini is the new CEO and Member of Management Board of AS Baltika from 1 May 2020. Mae Leyrer, Member of the Management Board of AS

2021 Consolidated Annual Report (in thousands of euros)

Baltika 14-months contract expired on 22 May 2020. The contract of Maigi Pärnik-Pernik, Member of the Management Board, expired in March 2020 and was extended to 22 May 2020 according to the decision made on 11 March by Supervisory Board.

Since December 1, 2020, Triinu Tarkin, Chief Financial Manager of AS Baltika Group, is a member of the Management Board.

Changes in the Supervisory Board in 2020

On 16 August 2020, the Annual General Meeting of Shareholders decided to recall Tiina Mõis, a member of the Supervisory Board.

NOTE 27 Subsidiaries

Subsidiary	Location	Activity	Holding as at 31 Dec 2021	Holding as at 31 Dec 2020
OÜ Baltika Retail	Estonia	In liquidation	100%	100%
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvija[1]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[1]	Lithuania	Retail	100%	100%

[1]Interest through a subsidiary.

NOTE 28 Reorganisation

AS Baltika applied for the commencement of reorganisation proceedings to Harju County Court on March 25, 2020 and on March 26, 2020 the court decided to initiate reorganisation proceedings. On April 30, 2020 AS Baltika presented reorganization plan to creditors for their approval. On May 20, 2020 AS Baltika`s reorganization plan was accepted by the creditors. Court approved AS Baltika's reorganization plan on June 19, 2020. According to the reorganization plan major restructuring measures are finishing the successfully started strategic turnaround with its goal of cutting fixed costs, applying applicable COVID-19 measures, and engaging additional financing and restructuring creditor's claims. Management estimates that Group´s going concern is ensured with the reorganisation plan.

With the approval of reorganisation plan Group recorded in other operating income (-expense) 4,585 thousand euros income from reduction of liabilities. The liabilities that were reduced were recorded in various balance sheet items: short and long-term borrowings, trade and other payables, subordinated loan in reserves in equity.

In line with reorganisation the repayment of investment loan in the amount of 1,101 thousand euros payment December 2023. Bank overdraft that has unused limit of 3,000 thousand euros as at balance date, can be used till 31 December 2023.

There was a reversal of previously made impairment in the amount of 1,320 thousand euros on production right-of-use-assets that became not needed due to its recoverable amount no longer being below carrying value.

In December 2021, the first transfers of the reorganization plan were made to creditors in the amount of 15 thousand euros.

NOTE 29 Going concern

As at 31 December 2021, the total equity of the Group amounted to 312 thousand euros and it no longer complies with the requirement set out in the Estonian Commercial Code. In order to comply with the law, equity would have to be at least 2,704 thousand euros. Group's working capital is negative – as at 31 December 2021, current liabilities exceeded current assets by 693 thousand euros.

There are many reasons which might explain this performance which are the following: strategic Group decision to discontinue with mainstream brand Mosaic, Baltman and Monton and to move further with only one brand, Ivo Nikkolo; COVID-19 pandemic which has largely influenced our performance during the whole 2021 in particular during Q1, Q2 and also Q4 (Latvia second full lock down from mid of October till mid of November including all week ends closures till 21st of December); closure of 27 unprofitable stores during the whole Baltics; global supply chain and delivery issues which have caused relevant delays with our goods in-store in particular during September 2021.

In order to finance the working capital, a comfort letter was signed on 18 February 2022 between Baltika AS and the KJK Fund promising immediate financial support to Baltika AS in case of its financial difficulties provided that the Companys Management Board has submitted a reasoned application for that purpose and accordingly, if necessary, invest additional funds essential to ensure that AS Baltika will continue as a going concern for 12 months from the date of approval of the financial statements.

KJK Fund as the majority shareholder of AS Baltika will support adoption of resolutions necessary for ensuring that the equity of AS Baltika will be in accordance with the Estonian Commercial Code no later than 31 December 2022.

Baltika and its shareholder, KJK Fund SICAV-SIF, have entered into a loan agreement with effect from 31 December 2021, under which KJK Fund SICAV-SIF will provide Baltika with a loan in the principal amount of 500 thousand euros. As at 31 December 2021, the loan is recognised in equity under other reserves. The loan mentioned above has no term, no interest, and is not secured. This loan will be transferred to AS Baltika in February 2022 and and recognised in the increase in equity.

Based on the above, there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as going concern for 12 months from the date of approval of the financial statements and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. But the management believes, based on all the facts, that the Group's operations are ongoing and the report is prepared for going concern.

NOTE 30 Supplementary disclosures on the parent company of the Group

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

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Statement of financial position of the parent company

	31 Dec 2021	31 Dec 2020
ASSETS		
Current assets		
Cash and cash equivalents	0	664
Trade and other receivables	2,098	1,169
Inventories	676	1,074
Total current assets	**2,774**	**2,907**
Non-current assets		
Investments in subsidiaries	863	863
Other non-current receivables	408	414
Property, plant and equipment	97	95
Right-of-use assets	284	555
Intangible assets	477	443
Total non-current assets	**2,129**	**2,370**
TOTAL ASSETS	**4,903**	**5,277**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	356	244
Lease liabilities	85	227
Trade and other payables	1,423	803
Total current liabilities	**1,864**	**1,274**
Non-current liabilities		
Borrowings	2,420	857
Lease liabilities	358	443
Other liabilities	52	75
Total non-current liabilities	**2,830**	**1,375**
TOTAL LIABILITIES	**4,694**	**2,649**
EQUITY		
Share capital at par value	5,408	5,408
Reserves	4,431	3,931
Retained losses	-6,596	-6,865
Net profit for the period	-3,034	154
TOTAL EQUITY	**209**	**2,628**
TOTAL LIABILITIES AND EQUITY	**4,903**	**5,277**

2021 Consolidated Annual Report (in thousands of euros)

Statement of comprehensive income of the parent company

	2021	2020
Revenue	6,113	9,891
Cost of goods sold	-5,402	-8,578
Gross profit	**711**	**1,313**
Distribution costs	-2,228	-2,685
Administrative and general expenses	-1,496	-2,113
Other operating income	139	92
Other extraordinary operating income	0	5,047
Other operating expenses	-28	-227
Operating profit (loss)	**-2,902**	**1,427**
Impairment and reversal of investments and receivables from subsidiaries	0	-1,165
Interest expenses, net	-132	-108
Net loss(-)/profit for the financial year	**-3,034**	**154**
Total comprehensive income loss(-)/profit	**-3,034**	**154**

2021 Consolidated Annual Report (in thousands of euros)

Cash flow statement of the parent company

	2021	2020
Cash flows from operating activities		
Operating profit (-loss)	-2,902	1,427
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	648	981
Other non-monetary expenses	500	-5,045
Changes in trade and other receivables	-923	2,009
Changes in trade and other payables	406	-3,118
Changes in inventories	398	2,649
Interest paid	-34	-120
Net cash generated from (used in) operating activities	**-1,907**	**-1,217**
Cash flows from investing activities		
Acquisition of non-current assets	-158	-197
Proceeds from disposal of PPE	0	30
Net cash used in investing activities	**-158**	**-167**
Cash flows from financing activities		
Proceeds from borrowings	0	3,550
Repayments of borrowings	-293	-117
Change in overdraft balance	1,985	-990
Repayments of finance lease, principle	-232	-361
Repayments of lease liabilities, interest	-59	-42
Net cash generated (used in) from financing activities	**1,401**	**2,040**
Total cash flows	**-644**	**656**
Cash and cash equivalents at the beginning of the period	**664**	**8**
Cash and cash equivalents at the end of the period	**0**	**664**
Net change in cash and cash equivalents	**-664**	**656**

2021 Consolidated Annual Report (in thousands of euros)

Statement of changes in equity of the parent company

	Share capital	Reserves	Retained earnings	Total
Balance at 31 December 2019	**5,408**	**4,045**	**-6,865**	**2,588**
Total comprehensive income	0	0	154	154
Other reserve	0	-114	0	-114
Balance at 31 December 2020	**5,408**	**3,931**	**-6,711**	**2,628**
Book value of holdings under control or significant influence				-863
Value of holdings under control or significant influence, calculated under equity method				947
Adjusted unconsolidated equity at 31 December 2020				**2,712**
Total comprehensive income	0	0	-3,034	-3,034
Other reserve	0	500	0	500
Balance at 31 December 2021	**5,408**	**4,431**	**-9,745**	**94**
Book value of holdings under control or significant influence				-863
Value of holdings under control or significant influence, calculated under equity method				1,081
Adjusted unconsolidated equity at 31 December 2021				**312**

Adjusted unconsolidated equity is used as the basis for verifying compliance with equity requirement set forth in the Commercial Code.

According to the Estonian Accounting Law, the amount that can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

NOTE 31 Events after the balance sheet date

On the 24th of February 2022, hostilities broke out in Ukraine, causing potential economic damage.

Baltika Group considers this event as a non-adjusting event after the balance sheet date. As of the date of this report, the military action in Ukraine has not yet had a material impact on the Group, but it is highly probable that the negative impact in the future, both on global trade as a whole and on the Group, could be greater than initially anticipated.

Baltika Group's operations and financial results in 2022 will be most affected by the increase in the price of transport services, longer delivery times and limited consumption by customers discouraged by the situation.

Independent auditor's report

To the Shareholders of Aktsiaselts BALTIKA

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Aktsiaselts BALTIKA (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 28 March 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its parent and subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59[1] of the Auditors Activities Act of the Republic of Estonia.

AS PricewaterhouseCoopers
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Translation note:

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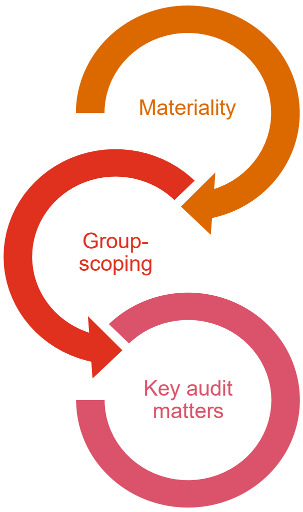
The non-audit services that we have provided to the Company and its parent and subsidiaries in the period from 1 January 2021 to 31 December 2021 are disclosed in the Corporate Governance Report.

Material uncertainty relating to going concern

We draw attention to Note 29 in the consolidated financial statements, which indicates that the Group's equity as at 31 December 2021 is below the amount required by the Estonian Commercial Code and the current liabilities exceed current assets by EUR 694 thousand. As stated in Note 29, these events or conditions, along with other matters as set forth in Note 29, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall group audit materiality is EUR 105 thousand, which represents approximately 0,9% of Group's revenue.

- We performed audit procedures over all significant transactions and balances across the Group as a whole. In limited areas where we relied on non-PwC component auditors, we determined the level of involvement needed to be able to report on the consolidated financial statements as a whole.

- Revenue recognition
- Inventory valuation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group audit materiality	EUR 105 thousand
How we determined it	Overall Group materiality represents approximately 0,9% of the Group's consolidated revenues.
Rationale for the materiality benchmark applied	We have applied this benchmark, as we consider the Group's ability to generate revenue to be key determinant of the Group's value and a key metric used by management, investors, analysts and creditors.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition (Refer to Note 1 "General information and summary of significant accounting policies", Note 16 "Segments" and Note 17 "Revenue and client bonus reserve") In 2021, the Group recognised net revenue of EUR 11.8 million. Revenue consists mainly of retail revenue generated in shops in the amount of EUR 9.8 million, e-commerce sales revenue in the amount of EUR 1.9 million and wholesale revenue from wholesale and franchise partners in the amount of EUR 0.1 million. In our view, the vast majority of the Group's revenue transactions are non-complex, with no judgment required to be applied in respect of the timing of revenue or amounts recorded. However, some judgment and management estimates are needed for a proper accounting in certain areas, including:	We audited revenue recognition through a combination of controls testing and substantive testing. • We assessed the correctness of revenue bookings, by agreeing selected transactions in the accounting systems to supporting evidence, such as invoices, agreements and subsequent cash receipts. • We agreed a sample of retail revenue recorded in the general ledger to incoming cash grouped by retail store, day and location of stores, validating the amounts received to bank receipts and card payments. • We agreed a selection of e-commerce revenue bookings recorded in the general ledger to supporting evidence, such as customers orders and invoices in Magento and the amounts received to bank receipts. • We assessed the return volumes and credit invoices of both retail and e-commerce customers, to ensure that all conditions to

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- taking returns into account in recognition of the sales revenue.

Revenue recognition requires significant time and resource to audit due to its magnitude, and is, therefore, considered to be a key audit matter.

recognise revenue were met at the point of time of the revenue recognition and whether such transactions were recorded in a proper period.

- We obtained the list of manual journal entries impacting revenue and reviewed entries for appropriate supporting evidence.

Inventory valuation (Refer to Note 1 "General information and summary of significant accounting policies", Note 2 "Critical accounting estimates and judgements in applying accounting policies", Note 6 "Inventories" and Note 18 "Cost of goods sold").

Inventories are recognised at the lower of cost and net realisable value. As of 31 December 2021, the total carrying amount of inventories was EUR 2.5 million, net of EUR 0.1 million allowance for impairment.

The Group sells fashion goods that are subject to changing consumer demands and fashion trends. Therefore, estimates are required to assess the net realisable value and the related write-down of inventory.

The estimates are based on the management's expectations regarding future sales and promotion plans as well as on historical sales patterns. The estimates are further adjusted based on post balance sheet date actual sales performance and returns.

Due to the size and related estimation uncertainty, valuation of inventories is considered a key audit matter.

We assessed the reasonableness of inventory write-downs as follows:

- We obtained the Group's policies for inventory write-downs and analysed the management's prior estimates and resulting write-downs by comparing them to historical actual sales patterns. In doing so, we obtained understanding of the relationship between the ageing profile of inventory and historical actual loss rates, and validity of management estimates made in previous periods.
- We calculated our own estimate of the required write-down by applying the historical sales data to the stock quantities as at the year-end, considering the stock profile and age. We used historical data to estimate potential losses on discounted sales.
- We tested on a sample basis the ageing categorisation of inventory items to obtain comfort over the categorisation of stock used in the calculation of write-down.
- We obtained the management's expectations for future sales and their inventory management plans, and compared them with our knowledge regarding market trends.
- We participated in selected shops physical inventory counts to validate procedures related to inspection of condition of inventory items.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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In the Group's consolidated financial statements, eight reporting units are consolidated. Based on our risk and materiality assessments, we determined the transactions and balances across the Group, which were required to be audited by the group audit team, considering the relative significance to the Group and the overall coverage obtained over each material line item in the consolidated financial statements. In limited areas where the work was performed by non-PwC component auditors, such as procedures on physical inventory counts and taxes outside Estonia, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report, Ethical business practices and corporate responsibility, Corporate Governance Report, Remuneration Report and Revenue allocation according to the Estonian classification of the economic activities (EMTAK) (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

In accordance with the Securities Market Act with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 of the Securities Market Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act; and
- the Remuneration Report has been prepared in accordance with Article 135^3 of the Securities Market Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based our agreement by the Management Board of the Parent to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Aktsiaselts BALTIKA for the year ended 31 December 2021 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Parent to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and those charged with governance

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements Estonia 3000 (revied) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE (EE) 3000(revised)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE (EE) 3000 (revised) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;

- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.
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We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors of Aktsiaselts BALTIKA, as a public interest entity, for the financial year ended 31 December 1998. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Aktsiaselts BALTIKA, as a public interest entity, of 22 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Aktsiaselts BALTIKA can be extended for up to the financial year ending 31 December 2023.

AS PricewaterhouseCoopers

/signed/

Eva Jansen-Diener
Certified auditor in charge, auditor's certificate no.501

/signed/

Heili Ert
Auditor's certificate no.630

28 March 2022
Tallinn, Estonia

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

This independent auditor's report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100145616/reports).

PROFIT ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net loss for the year ended at 31 December 2021 for 2,900 thousand euros to allocate as follows:

Retained earnings	-2,900
Total	**-2,900**

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2021.

The Supervisory Board of AS Baltika has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated financial statements, the Management Board's recommendation for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the annual shareholders meeting.

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Flavio Perini
Chairman of the Management Board, CEO
28 March 2022

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Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Board
28 March 2022

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Brigitta Kippak
Member of Management Board, COO
28 March 2022

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Reet Saks
Member of the Supervisory Board
28 March 2022

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Lauri Kustaa Äimä
Member of the Supervisory Board
28 March 2022

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Kristjan Kotkas
Member of the Supervisory Board
28 March 2022

AS BALTIKA SUPERVISORY BOARD

JAAKKO SAKARI MIKAEL SALMELIN
Chairman of the Supervisory Board since 23 May 2012, Member of the Supervisory Board since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Number of Baltika shares held as at 31 December 2021: 0

REET SAKS
Member of the Supervisory Board since 25.03.1997
Legal Advisor at Farmi Piimatööstus
Degree in Law, University of Tartu
Number of Baltika shares held as at 31 December 2021: 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
Number of Baltika shares held as at 31 December 2021: 231,578 shares (on Kaima Capital Eesti OÜ account)[1]

KRISTJAN KOTKAS
Member of the Supervisory Board since 08.10.2019
General Counsel at KJK Capital Oy
Master's degree in Law, University of Tartu
Master's degree in Law, University of Cape Town
Number of Baltika shares held as at 31 December 2021: 0

AS BALTIKA MANAGEMENT BOARD

FLAVIO PERINI
Member of the Management Board, CEO since May 1st 2020
Member of the Board since 2020, in the Group since 2020
Law Degree (Università degli Studi di Parma)
Number of Baltika shares held as at 31 December 2021: 0

BRIGITTA KIPPAK
Member of the Management Board
Member of the Board since June 1st 2021, in the Group since 1997
Economics Degree (University of Tartu)
Number of Baltika shares held as at 31 December 2021: 1 575

2021 Consolidated Annual Report (in thousands of euros)

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

Code	Definition	2021	2020
46421	Wholesale of clothing and footwear	4,210	7,677
47911	Retail sale via mail order houses or via Internet	1,866	2,152
46151	Brokerage of furniture, other products	0	52
68201	Other rental revenue	23	10
46191	Wholesale of other products	10	0
14131	Other sewing services	3	0
Total		**6,113**	**9,891**