AS BALTIKA

2019

ANNUAL REPORT

Baltika Group
FASHION SINCE 1928

AS BALTIKA

2019 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
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E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2019 - 31.12.2019

CONTENTS

BALTIKA GROUP IN BRIEF

Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika Group develops and operates fashion brands: Monton, Mosaic, Baltman and Ivo Nikkolo. Baltika employs a business model, which means that it controls all stages of the fashion process: design, supply chain management, distribution/logistics, wholesale and retail. As at 31 December 2019 Group had 82 Baltika's retail-stores in four markets - in the Baltics and Finland. 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

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

- Learning organisation with high targets
- Centralised management with strong retail organisations in the markets
- Brand portfolio covering a broad customer base

KEY FIGURES AND RATIOS

	2019	2018	2017	2016	2015[1]
Comprehensive income data, in millions					
Revenue	39.6	44.7	47.5	47.0	48.8
Gross profit	19.2	21.5	23.7	23.5	23.1
EBITDA	3.8	-2.9	1.9	2.0	0.9
Operating profit	-4.5	-4.7	0.6	0.7	-0.3
Profit before income tax	-5.9	-5.2	0.1	0.2	-0.8
Net profit	-5.9	-5.1	0.1	0.2	-0.8
Other data					
Number of stores in retail	82	94	95	95	95
Number of stores total	82	117	128	128	123
Retail sales area in the end of period, sqm	16,467	17,758	17,741	17,161	17,046
Number of employees (31 Dec)	529	975	1,026	1,049	1,095
Sales activity key figures					
Revenue growth	-11.4%	-5.8%	1.0%	-4.0%	2.0%
Retail sales growth	-7.4%	-2.7%	-0.5%	-7.1%	1.3%
Share of retail sales in revenue	89.7%	86.0%	83.2%	84.4%	87.6%
Share of exports in revenue	54.3%	55.1%	55.4%	56.4%	56.6%
Gross margin	48.4%	48.1%	49.9%	50.0%	47.3%
Operating margin	-11.4%	-10.5%	1.3%	1.5%	-0.6%
EBT margin	-14.9%	-11.6%	0.2%	0.4%	-1.6%
Net margin	-14.9%	-11.4%	0.1%	0.4%	-1.7%
Inventory turnover	2.24	2.14	2.15	2.17	2.16
Financial position data, in millions[2]					
Total assets	27.3	15.0	17.8	18.9	18.1
Interest-carrying liabilities	20	9.0	6.7	7.0	6.3
Shareholders' equity	3.2	0.1	5.2	5.0	4.8
Current ratio	0.8	0.9	1.8	1.1	1.3
Debt to equity ratio	624.3%	13660.8%	128.7%	141.6%	131.5%
Net gearing ratio	1640.0%	12785.0%	115.1%	133.2%	123.2%

ROE	3408.7%	-138.0%	1.3%	3.8%	-92.8%
ROA	-21.4%	-28.2%	0.3%	0.9%	-28.1%

Key share data, EUR[3]					
Number of shares outstanding (31 Dec)	54,079,485	40,794,850	40,794,850	40,794,850	40,794,850
Weighted average number of shares	36,068,899	40,794,850	40,794,850	40,794,850	40,794,850
Share price (31 Dec)	0.14	0.16	0.25	0.28	0.34
Market capitalisation, in millions (31 Dec)	7.3	6.7	10.4	11.5	14.0
Earnings per share (EPS)	-0.16	-0.13	0.00	0.00	-0.16
Diluted earnings per share (DPS)	-0.16	-0.13	0.00	0.00	-0.16
Change in EPS, %	23.08%	2981%	0%	103%	433%
P/E	-0.88	-1.80	57.61	65.21	-2.19
Book value per share	0.02	0.00	0.13	0.12	0.12
P/B	6.31	97.4	2.0	2.3	2.9
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]In connection with Baltika Group`s exit from Russian retail business in 2015, other data and sales activity key figures for 2015 are presenting only results of continued operations.

[2]Financial position data and key share data includes impact of continued and discontinued operations.

[3]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 6 to 47 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
Member of the Management Board, CEO
15 July 2020

MANAGEMENT REPORT

CEOs' STATEMENT

Prior to digging into 2019 look back, it is important to note that by the time of the completion of this report world has been hit with global COVID-19 crises, which has it's impact also on our activities. COVID-19 impact shall be analyzed in detail already in 2020 annual report.

In 2019, the revolutionary changes in the fashion industry continued. The most significant in Baltic market was the increase in competition. COS entered the Lithuanian market and Zara opened the largest store in the Baltics in Lithuania. All in all, the big ones are getting bigger, making the lives of many other bitter and requiring extra effort. We were ready for these efforts and acted promptly.

In the beginning of the year we updated the plan we launched in early 2018, focusing on ensuring the company's viability through exiting unprofitable operations, significant cost reduction, and brand portfolio optimization. It is good to say that we were successful in achieving these goals in 2019.

In the fall of 2019, we exited our own production and today we use high-quality manufacturing partners in Europe and beyond. Estonian production was replaced by 100% with European producers. In addition, we are in the final stages of exiting our B2B business, bringing efficiency to processes and enabling Baltika to focus on our strength, which is retail. In 2019, sales to B2B customers decreased as expected by 2.8 million euros (from 4.4 million euros to 1.7 million euros).

The biggest and most successful challenge in 2019 was the reduction of fixed costs. This is a painful activity for every company but with some regularity inevitable. We reduced our recurring head office fixed costs by 12%, i.e 0.9 million euros. This step was necessary in the process of refreshing our business model and in 2020, post COVID-19 crises, we shall be even more radical in the fixed cost deduction pursuit.

The third focus was on simplification the brand portfolio, which meant closing the last Bastion store and merging Mosaic and Bastion collections and brands with Monton. Beginning in 2020, all three brands will be under one brand and the products will be named Monton.

From 2019, I would highlight the significant innovation in one of our core processes, product development, as an additional victory. About a third of Monton's collection was completed with the help of 3D technology by the end of 2019, reducing the cost and length of the product development process.

Sales of the fourth quarter turned out to be the biggest challenge of the year. The last quarter is historically strong for Baltika in sales of outerwear and this product group plays a very important role in our collection. Unfortunately, the extremely warm winter had a negative impact on sales and we lost a total of 2.8 million euros in retail sales in 2019, of which the loss for the fourth quarter was -1.9 million euros. E-store sales grew nicely compared to 2018 (+ 21%, i.e +0.4 million euros), but their share of total sales is still too small to offset the loss of retail.

By taking the first major steps in Baltika's radical turnaround, we have laid the foundation for the next steps. In 2020, post COVID-19 crises, we shall continue with the turnaround even more radically by focusing first and foremost on successful execution of the reorganization plan. We would like to thank all the employees and partners who, despite their constant challenges, carry out the mission of providing our customers with excellent products and believe that everything is possible together! Together everything is possible and together we will find the best solutions!

Mae Leyrer
CEO until April 30

Flavio Perini
CEO as of May 1st, 2020

FINANCIAL RESULTS OF 2019

Company ended the twelve months with the loss of 5,909 thousand euros, including non-recurring costs related to Baltika's ongoing restructuring plan in the amount of 2,700 thousand euros and negative impact of IFRS 16 in the amount of 408 thousand euros. Last year loss was 5,119 thousand euros.

For twelve months total, Baltika's sales decreased 11% to 39,630 thousand euros. E-commerce showed a 21% increase in sales, retail sales decreased by 7% and business customer`s sales decreased by 62%.

In 2019, the retail sales were 35,566 thousand euros, which is 7% less than in the previous year. In 2019, sales decreased in all three Baltic markets. Sales revenue decreased the most in Latvia and Estonia by -11% and -8% respectively, while in Lithuania sales revenue decreased by -3%. The main reason for the decline in retail sales was a sharp decline in sales of outerwear and knitwear in the fourth quarter due to the warm winter and the closing of the Bastion brand.

In 2019, Baltika Group's online store Andmorefashion.com increased its sales by 21% and was 2.1 million euros. Sales of all Baltika`s brands grew and the Monton brand grew the most in volume i.e 40%. 90% of the sales revenue is generated by the e-shop from the Baltics countries, which also had the biggest increase in sales: in Estonia +12%, Latvia +2.7% and Lithuania +3.4%.

The sales revenue of business customers in 2019 was 1.6 million euros decreasing by 2.8 million euros i.e 62% compared to the previous year. The decrease in sales was driven by the termination of cooperation between Eastern European franchise partners in the first half of the year and the termination of the Monton brand sales in Peek&Cloppenburg department stores in Austria from the 2019/2 season. The change was caused by retailer's new strategy and the choice of brands in all markets of the department store chain. The sharp decline in business customers` sales was expected, as the gradual exit from business customer sales channel is part of Baltika Group's ongoing restructuring plan.

The gross profit of the company was 19,191 thousand eurot, which is 2,345 thousand euros less than in 2018. The decline in gross profit in 2019 was due to the decrease in retail sales in the Baltics, especially in the fourth quarter, which was affected by the sharp decrease in demand for outerwear and knitwear due to the warmer winter. Gross profit was also negatively affected by the closure of Baltika's production company Baltika Tailor OÜ, which liquidation costs totalled to 675 thousand euros in 2019.

Baltika's distribution and administrative expenses (excluding non-recurring costs and the impact of IFRS 16) decreased for the twelve months by 1,708 thousand euros, of which majority i.e 900 thousand euros was driven by the decrease of recurring fixed costs in Baltika's head office. Baltika Group`s restructuring plan which was disclosed in March 2019 set out as one of its goals to reduce Baltika Group's fixed costs by 2 million euros by the end of 2020. The activities related with restructuring started in April-May and by the end of 2019 about 50% of the target was met. In 2020, fixed costs of 2 million euros will continue to be reduced according to the plan.

Non-recurring costs and IFRS 16 impact

The Group's non-recurring costs in 2019 were approximately 2,700 thousand euros, of which 1,363 thousand euros were non-recurring costs related to the implementation of the restructuring plan. During the termination of Baltika Tailor OÜ operations the number of employees was reduced by 337 and the non-recurring costs related with liquidation amounted to 675 thousand euros in 2019. In addition, operations at both headquarter and retail markets were restructured, resulting in a non-recurring costs of 688 thousand euros in 2019. During the year, the number of Group employees decreased by 446 people.

In addition, in the 2019 the extraordinary impairment loss of 1,330 thousand euros related to Group’s lease contract for production unit was made related to the discontinuation of production in the Group's Estonian units. As of 31 December 2019, the assets right of use and lease liabilities in the statement of financial position are recognized from 1st of January 2019 when IFRS 16 standard was first applied. Due to the closure of the production units, the Group no longer uses these assets for its own business activities, therefore the value of the assets has been estimated in accordance to the possible future uses.

2019 Consolidated Annual Report (in thousands of euros)

As of 1 January 2019, IFRS 16, "Leases", amended the recognition of lease contracts so that the rent payments for the remaining term of the lease period are recognized in the statement of financial position at their present value as both assets and liabilities, and period rent expenses are not recognized in income statement, instead of that the depreciation and interest expense are recognized in the income statement. As at 31.12.19, fixed assets (i.e all lease payments at their present value, up to the end of the contract term) increased by 16,040 thousand euros and at the same time short-term lease liabilities increased by 5,383 thousand euros and long-term lease liabilities by 12,396 thousand euros.

The impact of the mandatory new accounting standard IFRS 16 on the income statement is shown in the table below.

	2019
Decrease in rent expenses	6,578
Increase in depreciation	-6,149
Increase in operating profit	**429**
Calculated interest expense on lease liabilities	-837
Decrease in the net profit	**-408**

HIGHLIGHTS OF THE PERIOD UNTIL THE RELEASE OF ANNUAL REPORT

- In March 2019, the Supervisory Board of AS Baltika approved the business plan for 2019 and 2020. The main parts of the operational plan are optimizing the brand portfolio and sales channels, digitalisation and changing the purchasing base. With the transition to an optimized brand portfolio, significant simplification of business processes and dissolving the production in Estonian production units, Baltika Group's fixed costs will be reduced by nearly two million euros over the next 12 months.

- In March 2019, the Supervisory Board of AS Baltika approved Mae Leyrer, the third member of the management board of AS Baltika. She is responsible for implementing the company's 2019 and 2020 business plan.

- In 14 March 2019 the Supervisory Board decided to present to the general meeting of shareholders the proposal to increase the nominal value of the share to 1 euro and to exchange the existing shares so that for each 10 shares one new share is given, thereafter decrease the nominal value of the share to 0.10 euros and decrease share capital from 4,079 thousand euros to 408 thousand euros to cover the losses in order to implement the 2019–2020 operational plan and meet the net asset requirement set out in the Commercial Code.

- In 14 March 2019 Supervisory Board decided to propose to the general meeting of shareholders to increase in August 2019 the share capital by 5 million euros via public offering.

- In 14 March 2019 Supervisory Board gave the consent to the management board to take a loan of 3 million euros from KJK Fund SICAV-SIF in the next 2 months. The loan was taken into two parts - 1,500 thousand euros was taken in March 2019 and 1,500 thousand euros in April 2019. The loan bears a 6% interest and is repaid from the funds generated from the share emission in August 2019.

- In 12 April 2019, the Annual General Meeting of AS Baltika shareholders approved the annual report for 2018 and the confirmation of losses. The General Meeting resolved to recall Valdo Kalm, member of the Supervisory Board of AS Baltika. In order to bring the equity into accordance with the requirements of the Commercial Code, the general meeting adopted a decision to increase the nominal value of AS Baltika share to 1 euros and to exchange the existing shares so that 1 new share can be received for every 10 shares, then reduce the nominal value of the share to 0.1 euros and reduce the share capital from 4,079 thousand to 408 thousand euros to cover losses. The exchange of shares was completed on May 6, 2019 and the reduction of share capital was completed on May 27, 2019. In addition, a decision was made to increase the share capital by 5 million euros via public offering in August 2019.

- On May 20, 2019, an agreement between KJK Fund Sicav-SIF, the major shareholder of the company, and AS Baltika about the on short-term convertible bonds (K-bonds) with the maturity date of August 2019, was signed. Between KJK Fund, Sicav-SIF and AS Baltika an agreement has been made for refinancing the bonds with the aim of converting the amount payable for the bonds into a long-term loan with a maturity of May 20 2022 with an annual interest rate of 6%.

- On June 26, 2019 company's Supervisory Board approved the resignation of Meelis Milder, member of the Management Board of the company. On the same date, the mandate of Meelis Milder's Management Board member ended. Meelis Milder will continue as an advisor to the company on the basis of a one-year contract signed on June 26, 2019.

- By decision of the company's Supervisory Board, from June 26, 2019 the CEO of AS Baltika is Mae Leyrer, who will be responsible for implementing the 2019-2020 action plan, confirmed by the Supervisory Board on March 2019. From June 26, 2019 the Management Board of AS Baltika continues with two members, Mae Leyrer as a CEO, who will be responsible for the sales, marketing and retail business processes and Maigi Pärnik-Pernik, who will be responsible for product development and support functions.

- On 12 July 2019, AS Baltika terminated the franchise contract before the deadline with the Russian franchise partner OÜ Ellipse Group.

- On 16 July 2019, at 10:00 am, the offering period of AS Baltika public share emission began.

- During the period from July 16, 2019 to August 7, 2019, the public offering of 50,000,000 ordinary shares of AS Baltika took place at an offer price of 0.1 euros per share. During the subscription period 53,379,570 shares were subscribed, in amount of 5,337,957 euros. On August 15, 2019 the Management Board of AS Baltika approved the final results of the public offering and the increase of share capital was entered into the Commercial Register on August 13, 2019. The new registered share capital of AS Baltika is 5,407,949 euros which is divided into 54,079,485 shares with the nominal value of 0.1 euros.

- As a result of the public offering of AS Baltika shares, the shareholding of KJK Fund SICAV-SIF (ING LUXEMBOURG S.A. AIF ACCOUNT), a major shareholder of the company, increased to 89.69% in AS Baltika. KJK Fund SICAV-SIF announced its intention to make a takeover bid for the acquisition of all AS Baltika shares in a stock exchange release dated on August 16, 2019.

- KJK Fund SICAV-SIF, the major shareholder of AS Baltika, announced in a stock exchange release dated on September 3, 2019 of its mandatory takeover bid for acquiring all the shares of Baltika. The offering acceptance period will start at September 3, 2019 and will end at October 2, 2019.

- The general meeting of shareholders of AS Baltika held on May 8, 2017 passed a resolution to issue convertible bonds worth 4.5 million euros. It was decided to issue 900 convertible bonds at an issue price of 5,000 euros. Of the 900 bonds offered, 889 bonds were subscribed in the total amount of 4,445 thousand euros. Two-year bonds carry 6% interest per annum. Each bond entitles its holder to subscribe for 15,625 shares at an issue price of 0.32 euros. By August 18, 2019, no subscription request had been received and according to the agreement between AS Baltika and KJK Fund Sicav-SIF signed in May, the amount payable to KJK Fund Sicav-SIF for the bonds was formalized as a long-term loan. The remaining installments were repaid to the bondholders.

- On September 20, 2019 Baltika Group closed the last Bastion brand store, which marks a milestone in Baltika Group's ongoing restructuring plan.

- KJK Fund SiCAV-SIF disclosed the results of the takeover bid on October 4, 2019. The shareholders of AS Baltika, who accepted the takeover bid, decided to sell a total of 20,509 shares to KJK Fund SICAV-SIF, representing approximately 0.0379% of all shares of AS Baltika. Together with the shares to be acquired as a result of the takeover bid, after the transfer of the shares to KJK Fund SICAV-SIF, a total of 48,526,500 shares of AS Baltika will be held, which represents approximately 89.7318% of all shares of AS Baltika. Together with the shares which was acquired from the takeover bid, KJK Fund SICAV-SIF holds a total of 48,526,500 shares of AS Baltika, which represents approximately 89.7318% of all shares of AS Baltika.

- On October 8, 2019, the Extraordinary General Meeting of Shareholders of AS Baltika elected Kristjan Kotkas as the fifth member of the Supervisory Board of AS Baltika, who shall be paid according to the resolution of the Annual General Meeting of Shareholders of April 27, 2015. Kristjan Kotkas has been a General Counsel at KJK Capital Oy since April 2019. During the years 2011-2019, Kotkas worked as a sworn attorney at Cobalt Law Firm. Kotkas holds master's degrees in law from the University of Tartu and the University of Cape Town. Kristjan Kotkas is a member of the Management Board of KJK III Participations S.a.r.l, Rondebosch OÜ, Protea Invest OÜ and the MTÜ Eesti Ragbi Liit. In addition, Kotkas is the President of the MTÜ Tallinna Kalev RFC. Kristjan Kotkas does not own any shares of AS Baltika.

- On 1st of November 2019 AS Baltika, as the sole shareholder of OÜ Baltika Tailor, decided to dissolve the company and to start with the liquidation proceedings.

- The Supervisory Board of AS Baltika meeting hold on 23th of January 2020 approved the plan to reorganise group structure. Part of the company`s restructuring plan is to change group management more efficient. In order to achieve that group structure will be changed more flat and lean. Supervisory Board decided to liquidate AS Baltika's subsidiary Baltika Sweden AB (dormant). In addition, it was decided that AS Baltika acquires 100% shareholding in OÜ Baltman, a subsidiary of OÜ Baltika Retail (holding company) for 0.15 million euros. OÜ Baltman manages the Baltics retail companies SIA Baltika Latvija and UAB Baltika Lietuva.

- According to the decision of the Supervisory Board held in 11 March, Flavio Perini will be the new CEO and Member of Management Board of AS Baltika since 1 April 2020. Mae Leyrer, Member of the Management Board of AS Baltika 14-months contract expires on 22 May 2020. The contract of Maigi Pärnik-Pernik, Member of the Management Board, expires in March 2020 and will be extended by 22 May 2020 according to the decision made on 11 March by Supervisory Board. Until the end of the contracts, both Leyrer and Pärnik-Pernik, as members of the management board, will continue to actively implement company's restructuring plan, while gradually transferring management to the new Management Board.

- AS Baltika´s subsidiary OÜ Baltika Retail received on 11 March 2020 an application for claim from OÜ Aquabene to acquire property located at Viru county, Kohtla-Järve city, Ahtme district, Õpetajate tee 5. OÜ Baltika Retail has sold the above referred property to the OÜ Aquabene under a contract of sale dated 4 March 2010. According to the contract of sale OÜ Baltika Retail has an obligation to repurchase the property. Following the sale of the property, Baltika Group leased the property for production activities. According to the application for claim the repurchase price is 1,167,172 euros. Pursuant to the application, OÜ Baltika Retail is obliged to buy back the property by 25 March 2020 at the latest. AS Baltika has issued a guarantee for fulfilment of the obligations of OÜ Baltika Retail.

- AS Baltika submitted an application 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. The court has set a date to present the reorganisation plan to the court for approval by June 1, 2020. The initiation of the reorganization procedure is related with the coronavirus COVID-19, which is having a significant negative impact on the financial results and liquidity of Baltika Group. In addition, non-recurring expenses related to the restructuring (mainly regarding the cessation of production in Estonia) of Baltika Group have also had a negative impact on the financial results and liquidity of Baltika Group. As a result of these circumstances, Baltika Group is having solvency problems, which according to Baltika are temporary by them nature and can be overcome by the successful completion of the reorganization.

- On April 30, 2020 AS Baltika presented reorganization plan to creditor's for their approval. According to the reorganization plan major restructuring measures are finishing the successfully started strategic turnaround with it's goal of cutting fixed costs, applying applicable COVID-19 measures, and engaging additional financing and restructuring creditor's claims. Baltika plans to fulfill the reorganization plan within three years from it's approval. For the approval of the reorganization plan creditors will cast their votes. After creditors voting, court will make the final decision on the reorganization plan's approval.

- On April 25, 2020, all retail stores of the Baltika Group located in Lithuania were reopened and on May 11, 2020, all retail stores located in Estonia were reopened by government decision.

- On April 30, 2020, the last Baltika Group retail store in Iso Omena shopping center in Finland was closed.

- On May 20, 2020 Baltika`s reorganization plan was accepted by the creditors. On the basis of the reorganization plan of Baltika, the creditors were in two groups and also the voting therefore took place in two groups. Of the Group I creditors, 66.67% of the creditors voted in favor, and the votes determined on the basis of the volume of claims accounted for 99.61% of all Group I votes. Of the Group II creditors, 82.76% of the creditors voted in favor, and the votes determined on the basis of the volume of claims accounted for 68.86% of all Group II votes. According to the Reorganization Act, a reorganization plan shall be accepted if at least half of all the creditors who hold at least two-thirds of all the votes (i.e volume of claims) vote in favor. If creditors are divided into groups, this requirement must be met in all groups. Baltika will submit the reorganization plan accepted by the creditors to the court for approval no later than on 25 May 2020.

- Court approved Baltika's reorganization plan on 19 June 2020. The ruling on the approval of the plan is enforced immediately. The creditors had an opportunity to file an appeal against the ruling within 15 days of the receipt of the ruling.

MEETING THE OBJECTIVES OF 2019

Brand portfolio optimization

In the mainstream segment, from the Spring/Summer 2020 season Monton, Mosaic and Bastion were merged under one brand. The leading brand in the mainstream segment is Monton since the first season of 2020, and its value proposition has been updated to be in line with the target segment and increased customer expectations.

Sales channel optimization

In 2019 business customer sales channel was gradually exited and continued to work only with partners whose purchasing process is in line with Baltika Group's product development timeline. As a result, sales revenue of business customers decreased as expected by 2.8 million euros (from 4.4 million euros to 1.6 million euros). In 2019 the focus went on the Baltics retail market and E-shop. The store network was analyzed according to the new brand portfolio and focus went on the best locations in the best centers. In 2019, 12 stores were closed, 8 of them in Estonia, 3 in Latvia and 1 in Lithuania.

Digitization

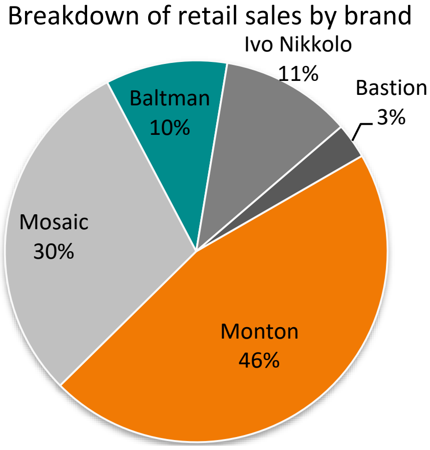
Several basic processes were made simpler, faster and more efficient. The biggest and most radical change was in product development where a world-class digital tool - 3D was implemented into product development process. The latter means a significantly faster product development process with fewer physical samples. By the end of 2019, about a 1/3 of Monton's new collection was completed by using 3D. In one of the company's core processes, inventory management, artificial intelligence was implemented, resulting in significantly increased inventory management efficiency.

Changing the procurement base

During 2019, production at Baltika Group's Estonian production units was ended according to a plan and outsourcing of full-scale sewing services from partners started. Estonian production units` production was fully replaced by production made by European partners.

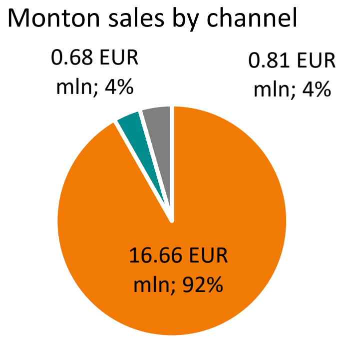
OVERVIEW OF BRANDS

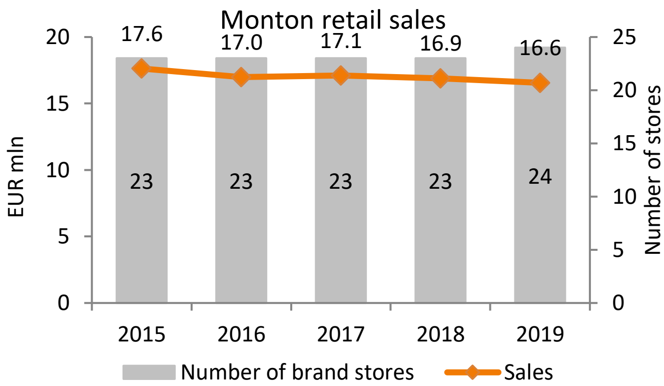
By brands, the largest share of Baltika Group's sales in 2019 was constitued by Monton 46% and Mosaic 30%. Monton's share increased by 1 percentage point compared with last year the share of Mosaic's sales revenue stayed last year`s level. In terms of sales revenue, Baltika Group`s premium brands, Ivo Nikkolo`s and Baltman`s share has stayed last year`s level. While the sales revenue of all brands in the retail and business customer sales channel has decreased, the sales of all brands in E-store have increased at the same time. E-store revenue is distributed more evenly among brands than in other channels - Monton constitutes to 40%, Mosaic 28%, Ivo Nikkolo 19%, Bastion 8% and Baltman 5%.



Monton

In 2019, Monton`s sales revenue was 18.0 million euros, decreasing by 10% i.e 2.1 million euros in a year. The main reason was a decrease of sales revenue of business customers by -74% i.e 1.9 million euros due to the termination of franchise agreements in all export markets and and in the second half of the year, the contract was also terminated with the Peek & Cloppenburg department store chain in Central Europe. Retail revenue decreased 2.5%, which was mainly driven by the decrease in sales of all Baltics markets. The biggest decrease occurred in the Monton women's collection in the second half of 2019 due to a decline in demand for warm outerwear and knitwear. The decline was partly offset by the merger of Monton and Mosaic menswear collections, which increased Monton menswear sales. At the same time, sales of Monton brand on the E-shop continued growth, increasing sales by 40% compared to last year. Monton accounts for 46% of Baltika Group's sales, being the largest brand in the Baltika Group's brand portfolio.





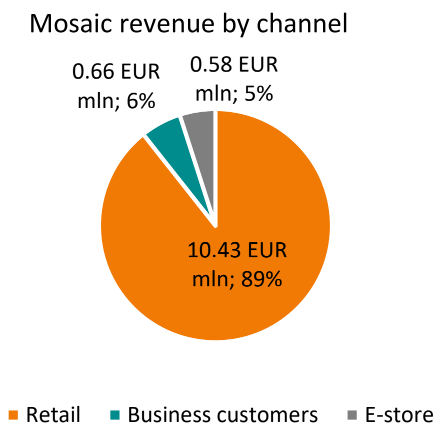
The Monton brand had 24 stores in 2019, of which 10 were in Estonia, 8 in Lithuania and 6 in Latvia. In Estonia, the Monton brand is also represented in multi-brand stores on Tallinn's Moetänav and in the Vèrenni store in T1 Shopping Center. During 2019, Monton brand was also sold through a network of franchise partners in Serbia, Russia, Ukraine, Slovenia, Croatia and Finland.

Monton brand is characterized by practical design combining leading fashion trends with a unique design handwriting. Stable and reliable quality of Monton collections and good fit have contributed to Monton's success. In the second half of 2019, the merger of all Baltika Group's mainstream brands under the Monton name started.

As a first step, in July 2019, the Mosaic men's collection was merged with the Monton men's collection. The first Monton and Mosaic women's collection, created under a new design team, was presented at the end of 2019. Specifically designed for customers who need formal clothings, the collection combines the strongest parts of Monton and Mosaic and features a classically elegant line. In 2019, Monton's design team also continued with a special collection, Talented, which took a journey on the paths of Estonians' tribal people to bring the beauty of Estonian roots to the present day. Inspired by the tribal people, the resulting patterns and shamanistic details, and our national animal wolf, this time this collection was deeply nationalistic and dedicated to the anniversary song festival. In addition to Monton brand stores, the special collection was represented by a special display at Tallinna Kaubamaja and Estonian Design House, which specializes in Estonian design.

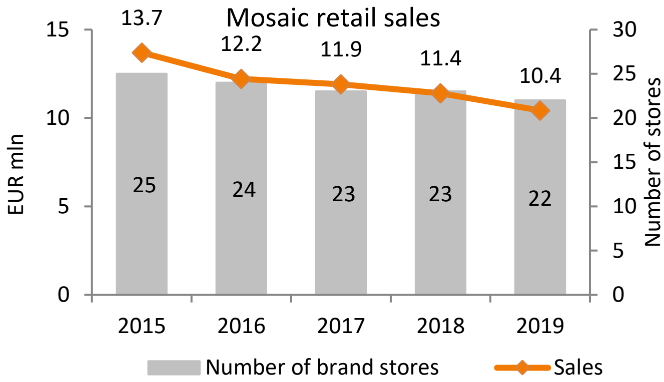
Photo: Monton`s Head of Collection Kaie Kaas-Ojavere

Mosaic



In 2019, Mosaic brand`s sales revenue was 11.7 million euros, decreasing by 13% i.e 1.7 million euros in a year. The main reason was a decrease of retail and business customer`s sales revenue, respectively by -54% and -9%. Retail sales decreased in all three Baltic markets as a result of the start of the mainstream brand merger process. As a first step, Monton and Mosaic menswear collections were merged and due to that Mosaic menswear collection sales dropped. At the same time, sales of Mosaic brand in the E-shop continued to grow, increasing by 23% year-on-year, indicating that Mosaic customer has well embraced the E-shop as a sales channel. Mosaic accounts for 30% of Baltika Group's sales revenue, making it the second largest brand in the Baltika Group's brand portfolio.

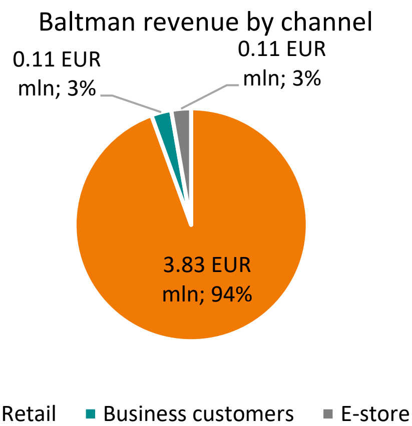
Mosaic brand was represented in 22 concept stores in 2019, of which 9 were in Estonia, 9 in Lithuania and 4 in Latvia. In the first half of 2019, all franchise stores were closed in Ukraine, Russia and Serbia, as well as in several wholesale channels such as Stockmann's department stores in Russia and Aleksi 13 department stores in Finland.



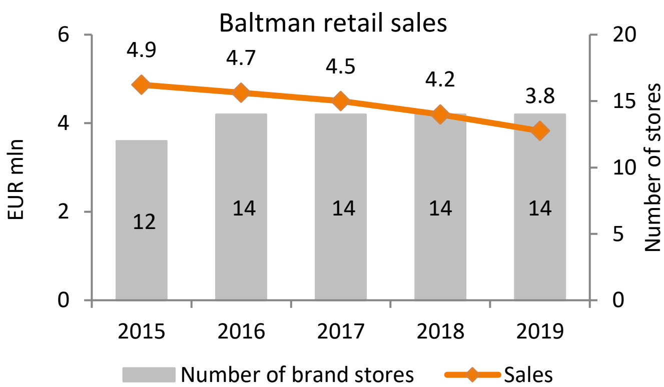
During the process of merging mainstream brands, which started in 2019, 2 Mosaic concept stores in Estonia were closed in Rocca al Mare shopping center and Pärnu Kaubamajakas. Mosaicś loyal customers will continue to be served by Monton stores in the same shopping centers. As of 2020, Mosaic brand will end its existence which is one part of Baltika Group's restructuring plan.

Mosaic's role in Baltika Group's brand portfolio was to provide a classic and practical every day clothes for women and men. Carefully selected colors, fabrics and details keep pace with contemporary fashion trends, while the timelessly elegant cuts makes it easy to combine with existing wardrobe and future seasons collections. Because of the good fit of the last finishing touches for a neat and presentable look, Mosaic has also contributed to a wide range of sizes and fit so that every customer, regardless of body type and height, can find beautiful, elegant and well-fitting clothing. In the second half of 2019, as part of the mainstream brand merger, Bastion brand was merged with Mosaic brand. Bastion`s feminine handwriting, cuts and the distinctive details and feminine patterns were brought to Mosaic`s collection.

Baltman



In 2019, Baltman`s sales revenue was 4.0 million euros, decreasing by 8% i.e 0.34 million euros in a year. The main reason was a decrease of retail sales which is related with the closure of brand flagship shops in Latvia and Lithuania. In both markets one signature shop was closed. In addition, Baltman's sales revenue was impacted by a sharp decrease in sales of men's and formal clothings. At the same time, sales of Baltman brand in E-shop continued to grow, increasing by 51% compared to last year. Baltman's sales revenue constitutes 10% of Baltika Group's sales revenue and is the only men's premium brand in Baltika Group's brand portfolio. The largest retail market for the Baltman brand remains Estonia.



There are 14 Baltman concept stores in Baltika Group's retail portfolio, 5 in Estonia, 3 in Latvia and 6 in Lithuania. In addition, Baltman brand continues to be represented in Tallinn on Moetänav, which constitutes 46% of the brand's Estonian sales revenue, Vèrenni store in the T1 Shopping Center and the men's world in Tallinna and Tartu Kaubamaja.

Baltman is the oldest brand in the Baltika Group, established in 1991. Baltman offers both classic and trendy clothing, covering all the modern day man's needs. Baltman is designed for men who along with elegance, consider the fit, quality and practicality of the materials to be at least as important.

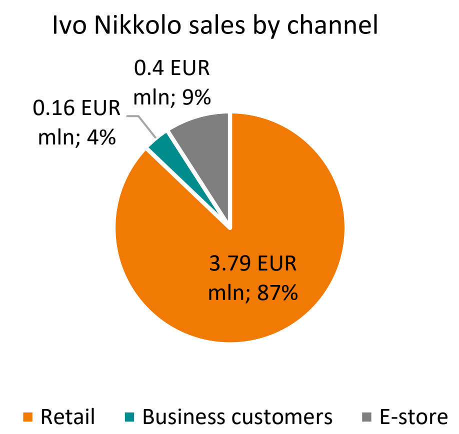
Baltman collections are characterized by dynamics, quality and combination. Baltman`s Head of Collection Aivar-Antonio Lätt describes Baltman's Fall-Winter 2019 collection as a retrospective to the 1990 and 2000 fashion. “Baltman's 2019 collection hide American and Ivy League influence with a strong emphasis on high-tech fabrics. Premium quality and the use of innovative fabrics are one of the cornerstones of Baltman's collections. We work together with fabric manufacturers with long history and production experience all over the world. Baltman suits are made of fabrics such as Loro Piana, Dormeuil and Lanificio Cerrut, used by many high-end fashion brands, ”explained Lätt.

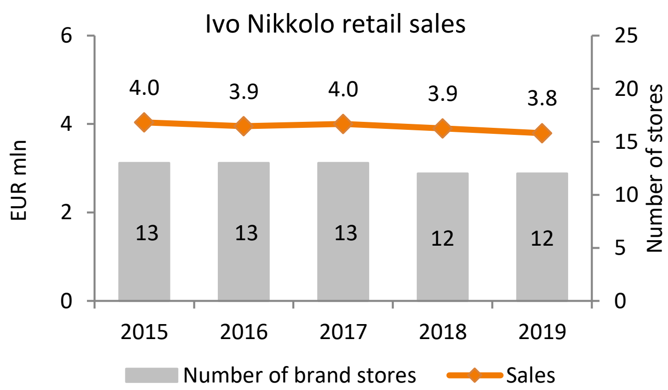
Photo: Baltman´s Head of Collection Aivar-Antonio Lätt

Ivo Nikkolo

In 2019, Ivo Nikkolo`s sales revenue was 4.4 million euros, which decreased by 2% i.e 0.11 million euros compared with last year. The sales revenue of business customers decreased by 28% which is related with the termination of contracts with franchise customers and Stockmann department store.

At the same time co-operation with Tallinna Kaubamaja is still active. Retail sales decreased by 3%, mainly due to a decrease in sales in Estonian and Latvian markets. At the same time, sales revenue in Lithuanian market increased by 1%. Ivo Nikkolo's E-shop sales increased by 17%, indicating that customers are increasingly choosing the E-shop as a shopping channel. Ivo Nikkolo accounts for 11% of Baltika Group's sales revenue and is the only women premium brand in Baltika Group's brand portfolio. Ivo Nikkolo brand is represented by 12 stores, of which 5 are located in Estonia, 4 in Latvia and 3 in Lithuania. The Nikkolo brand is also presented in Tallinn`s Moetänav and in the T1 Shopping Center in Vèrenni shop.





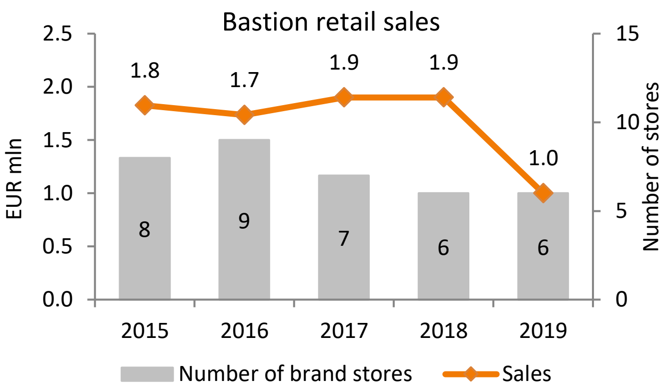
Ivo Nikkolo is known as a fashion brand with unique handwriting, valued for its original and recognizable design as well as its use of high quality and innovative fabrics. Ivo Nikkolo`s clothings are designed for the modern woman who values distinctive and unique design with playful elements and surprising details. In 2019, Ivo Nikkolo continued to design a bolder and more youthful design with a team of designers led by chief designer Britta Laumets-Merila.

Photo: Ivo Nikkolo`s Head of Collection Britta Laumets-Merila

In October 2019, Ivo Nikkolo celebrated its 25th birthday, culminating in a spectacular fashion show at Tallinn Fashion Week. At the peak of the Estonian fashion scene, the jubilee collection was inspired by the mountains and the peak. "Once you have reached the top of the mountain, you will be possessed by euphoria on the one hand and peace on the other ... We want to convey that feeling to all our brand fans," Laumets-Merila explained, "Ivo Nikkolo is the top of Estonian fashion!". On the stage a fall-winter collection was showed, previews of the spring collection, and sets designed specifically for the fashion week. The collection showed at the event attracted a great attention from professionals and enthusiasts it was praised in many publications covering the event. For years, Ivo Nikkolo has focused on quality and has invested heavily in design that lasts for long time and the high and durable quality of the products. In addition, efforts are being made to increase the value of the collection and, from 2020, the product range will include products made from recycled fibers or fabrics made from sustainable raw materials (e.g ecovero viscose, recycled polyester).

Bastion

In 2019, the sales revenue of Bastion was 1.2 million euros, decreasing by 46% i.e 1.0 million euros in a year. The main reason for the decrease in sales was the closure of brand from the second half of 2019. During 2019, all of the brand's stores were closed, the last one in October 2019. There were 6 Bastion brand stores in the first half of 2019, 4 in Estonia and 2 in Latvia. In addition to concept stores, Bastion brand was also represented in multi-brand stores in Estonia, Latvia and Lithuania, as well as on Moetänav in Tallinn and at the Vèrenni shop in T1 Shopping Center. Bastion's clothes were characterized by a feminine handwriting, which was reflected in the fabrics used as well as in the cuts. The timeless design and stretchy knitted fabrics used for the comfort of the wearer made the products suitable for every body type. Year after year, Bastion's collections were characterized by distinctive details and feminine patterns that adorned and highlighted the best of the wearer. Bastion's distinctive handwriting and customer-loved products



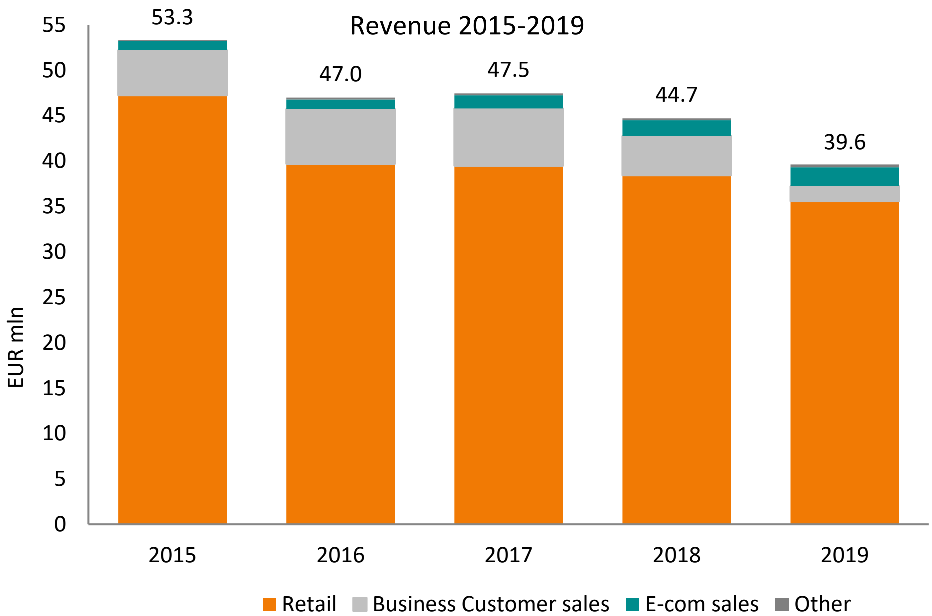
2019 Consolidated Annual Report (in thousands of euros)

have been merged into the Mosaic women's collection since autumn 2019. Well-known Bastion chief designer Monika Randloo will continue as the designer of festive clothings in Monton team.

REVENUE

Revenue by channels

EUR million	**2019**	**2018**	***+/-***
Retail	35.6	38.4	*-7%*
Business Customer sales	1.6	4.4	*-62%*
E-com sales	2.1	1.7	*21%*
Other	0.3	0.2	*59%*
Total	**39.6**	**44.7**	***-11%***



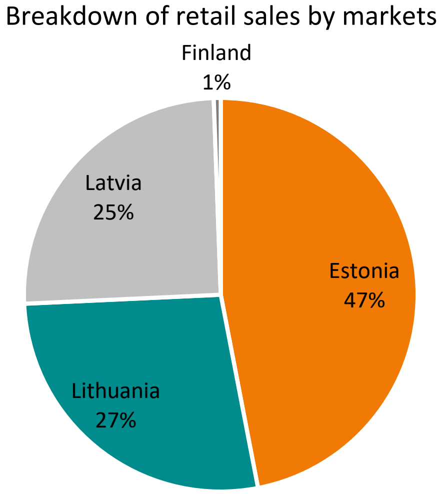
2019 Consolidated Annual Report (in thousands of euros)

RETAIL

In 2019 retail revenue was 35.6 million euros i.e. 7% less than last year's comparative result.

Retail sales by markets

EUR million	2019	2018	+/-
Estonia	16.7	18.2	-8%
Lithuania	9.7	10.0	-3%
Latvia	8.9	10.0	-11%
Finland	0.2	0.2	27%
Total	**35.6**	**38.4**	**-7%**



Baltika Group's biggest retail market continues to be Estonia. In a year the share of Estonian and Latvian market has decreased by 1.0 and 0.4 percentage points, at the same time Lithuania and Finland market share has increased respectively 1.2 and 0.2 percentage points.

In 2019, sales revenue decreased in all three Baltic retail markets. The sales revenue in Estonia and Latvia decreased the most, respectively -11% and -8%, in Lithuania sales revenue decreased by -3%. Sales efficiency of the entire retail channel decreased by -4% compared to the previous year.

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

EUR/m²	2019	2018	+/-
Estonia	187	195	-4%
Lithuania	148	151	-2%
Latvia	195	211	-8%
Finland	92	70	31%
Total	**175**	**183**	**-4%**

2019 Consolidated Annual Report (in thousands of euros)

STORES AND SALES AREA

At the end of 2019 Baltika Group had 82 stores in four countries with total sales area of 16,467 m^2. Retail network average operating area increased in Finland and decreased in all Baltics markets. In 2019, the number of stores in Estonia decreased by 8, in Latvia by 3 and in Lithuania by 1.

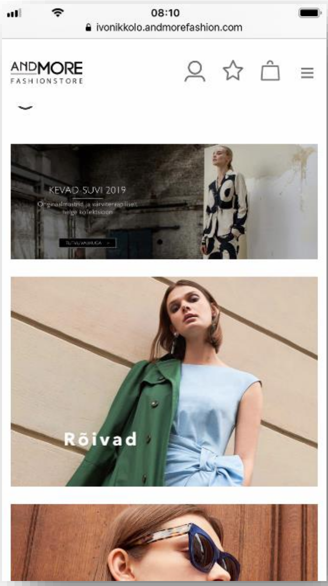
Stores by markets

	31 December 2019	31 December 2018	Average area change*
Estonia	33	41	-2%
Lithuania	29	30	-1%
Latvia	19	22	-1%
Finland	1	1	41%
Ukraine[1]	0	10	-49%
Russia[1]	0	9	-15%
Belarus[1]	0	2	0%
Spain[1]	0	1	-84%
Serbia[1]	0	1	69%
Total stores	**82**	**117**	0%
Total sales area, sqm	**16,467**	**22,082**	**-25%**

Baltika Group`s retail network by market and brand, 31 December 2019

	Estonia	Lithuania	Latvia	Finland	Total	+/- vs 2018
Monton	10	8	6	0	24	1
Mixed brands	6	3	3	1	13	0
Mosaic	6	9	4	0	19	-4
Baltman	5	6	2	0	13	-1
Ivo Nikkolo	5	3	4	0	12	0
Bastion	0	0	0	0	0	-6
Outlet	1	0	0	0	1	-2
Total	**33**	**29**	**19**	**1**	**82**	**-12**
m2	6,975	5,549	3,758	185	16,467	-1,291

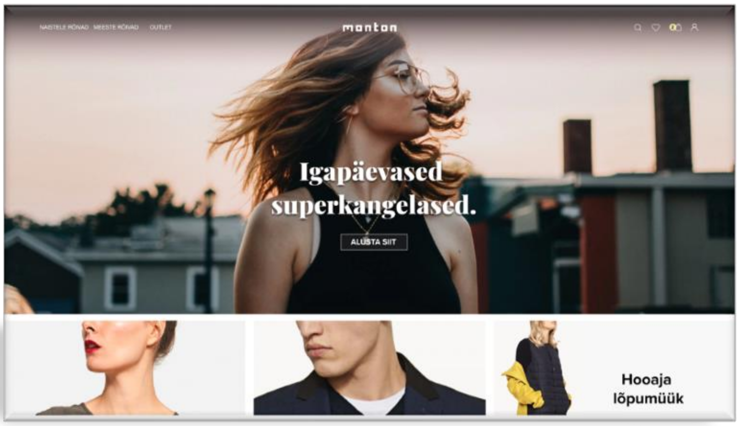
E-STORE SALES



In 2019, Baltika Group's online store Andmorefashion.com increased its sales by 21% and was 2.1 million euros. Monton (40%) accounted for the largest share of sales, followed by Mosaic (28%), Ivo Nikkolo (19%), Baltman (5%) and Bastion (8%). Sales of all brands grew and the Monton brand grew the most in volume i.e 40%. 90% of the sales revenue is generated by the e-shop from the Baltics countries, which also had the biggest increase in sales: in Estonia (+ 12%), Latvia (+ 2.7%) and Lithuania (+ 3.4%).

One of the most significant achievements of 2019 in the E-shop was the implementation of E-POS system, which enables the consumer to make an e-shop order in a retail store even if the product or suitable number is not available in the store. After making a purchase, the product is shipped to a customer-selected parcel machine similar to an order placed in an online store, thereby improving product availability.

During 2019, the Andmorefashion.com e-shop was visited 3.6 million times by 1.2 million unique visitors. The conversion rate increased 32.81 percentage points compared to the previous year, which is a significant driver in the increase of sales revenue by + 22% compared to the previous year. 76.2% of e-shop visitors were women and 23.8% were men. Despite the small proportion of male visitors, the value of their average shopping cart is 1.25 times higher than the average female visitor's purchase. Most e-shop visitors (27.65%) were in the age group 25-34, followed by 34-44 (24.05%), 45-54 (22.77%), 55-65 (17.98%). The youngest (18-24) and the oldest (65+) age groups, with 4% and 3.55% respectively, are the least represented. While desktop traffic dominated Andmorefashion's e-shop in 2018 and mobile traffic ranked second, in 201, mobile visits exceeded desktop traffic. By countries, the largest number of visitors came to the Andmorefashion.com E-shop from the Baltic countries, Russia, Finland and the United States. The most distant countries to which the Baltika brands were shipped were Australia, Japan, USA and Canada.



BUSINESS CUSTOMERS SALES

The goal of 2019 was to focus on two focus markets – to continue expanding in the Balkans and to find new partners in Finland, and to shift more focus to business growth in Finnish E-commerce. In the first half of the year, together with Baltika's restructuring plan, the sales strategy for business customers also needed change. The new strategy will only focus on retaining existing customers in terms of their ability to continue to work in synergy with Baltika's retail processes.

The sales revenue of business customers in 2019 was 1.6 million euros decreasing by 2.8 million euros i.e 62% compared to the previous year. The decrease in sales was driven by the termination of cooperation between Eastern European franchise partners in the first half of the year and the termination of the Monton brand sales in Peek&Cloppenburg department stores in Austria from the 2019/2 season. The change was caused by retailer's new strategy and the choice of brands in all markets of the department store chain.

In addition to the already existing cooperation with Montecristo SL D.o.o, a department store chain operating in the Balkans, wholesale cooperation with the Finnish department store chain Aleksi 13 was started in February 2019. In December 2019, it was decided bilaterally with the department store chain Aleksi 13 to terminate cooperation from the 2020/2 season, while still maintaining a good business relationship. In the future is the potential to continue cooperation under the concession model.

AndMore bonus programme for loyal customers

The loyal customer programme AndMore, which covers all the brands, stores and the e-store, has been in use since 2014. With the AndMore bonus programme, every purchase grants the customer a bonus, which they can begin to use from their next purchase. Customers can earn 5%, 7% or 10% bonuses, depending on their customer level determined by the rolling 12-months purchase volume. Bonuses are personal and are valid for 6 months from last purchase. In addition, customers can use a one-time purchase bonus of 5, 7 or 10 euros on their birthday. As of September 1, 2020 personalized birthday offers are made to clients.

All brands and retail and e-store wide bonus programme allows to get a good overview of our loyal customers behaviour and their preferences. This in turn enables to send them personalised messages. Customers can also monitor their personal bonus account balance in the e-store at Andmorefashion.com.

As of the end of 2019, 525,300 people had joined the bonus programme, including 26,600 people who joined in 2019. The purchase volume of loyal customers is around 71% of Baltika's total retail sale in the Baltic region and 29% respectively is purchase volume of anonymous customers. 58% of loyal customers who made purchase in 2019, were in the age group of 30–50 and 79% of loyal customers were female.

OPERATING EXPENSES AND PROFIT

Baltika Group's gross profit margin for 2019 was 48.4%, which is 0.3 percentage points higher than last year (2018: 48.1%). In 2019, revenue decreased by -11% and gross margin by -11%. The company's gross profit was 19,191 thousand euros, which is 2,345 thousand euros less than the comparable result of the previous year (2018: 21,536 thousand euros). Gross profit for 2019 includes 675 thousand euros non-recurring costs related to the liquidation of Baltika's production company Baltika Tailor OÜ.

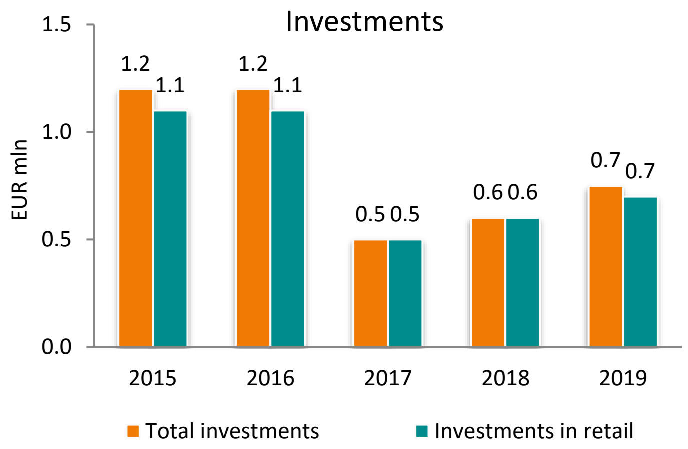
Baltika's distribution and administrative expenses (excl. non-recurring costs and the impact of IFRS 16) decreased during a year by 1,708 thousand euros to 19,588 thousand euros (2018: 21,579 thousand euros). The majority, i.e 900 thousand euros (-12% vs 2018) was contributed by the decrease of recurring fixed costs in Baltika's head office. Baltika Group`s restructuring plan which was disclosed in March 2019 set out as one of its goals to reduce Baltika Group's fixed costs by 2 million euros by the end of 2020. The activities related with restructuring started in April-May and by the end of 2019 about 50% of the target was met. In 2020, fixed costs of 2 million euros will continue to be reduced according to the plan.

Net financial expenses in 2019 were 1,391 thousand euros, which is 837 thousand euros more than in the same period last year. The increase in financial expenses is due to the additional interest expense arising from the requirements of IFRS 16. The net loss of Baltika Group in 2019 was 5,909 thousand euros, the net loss for 2018 was 5,119 thousand euros.

FINANCIAL POSITION

As at the December, 31, 2019, Group's inventories totalled 7,644 thousand euros, decreasing by 3,063 thousand euros compared to last year-end. Finished goods and goods purchased for resale has decreased by 1,853 thousand euros and the amount of fabric and accessories has decreased by 1,196 thousand euros. The change in inventory structure is related to Baltika Group's ongoing restructuring plan, according to which production operations in Estonia were discontinued at the end of 2019, and in the future sewing services will be purchased mainly from partners in the European region.

Investments were made in 2019 the amount of 749 thousand euros and deprecation and the decrease of value was 8,289 thousand euros. Non-current assets residual value increased by 15,768 thousand euros compared to last year-end and was 18,762 thousand euros. The increase in fixed assets in the amount of 16,040 thousand euros is related to the implementation of IFRS 16 "Leases".



As at 31 December 2019 the total borrowings amounted to 19,998 thousand euros, which together with the use of overdraft facility signifies an increase of 11,004 thousand euros compared to last year-end (31 December 2018: 8,994 thousand euros), of which 17,779 thousand euros represents the impact of the recognition of lease agreements on the financial position of the Group due to the change in accounting policy. Excluding the impact of IFRS 16, the Group's borrowings decreased by 6,775 thousand euros compared with the end of last year due to the redemption of K-bonds and lower use of overdraft.

As at 31 December 2019 Group's net debt (interest-bearing liabilities less cash and cash equivalents) was 19,734 thousand euros, which is 11,168 thousand euros more than at the end of last year. The increase in net debt is related to the recognition of leases due to a change in accounting policy in IFRS 16 "Leases" in the Group's statement of financial position. The gearing ratio was at December 31, 2019 1640% (December 31, 2018: 12,785%). Compared to the year-end, the net debt-to-equity ratio has improved as a result of the decrease in loan liabilities and the increase in equity. The Group's liquidity ratio has decreased from 0.9 to 0.8 during 12 months (31 December 2018 and 31 December 2019) due to the recognition of IFRS 16 leases as current liabilities.

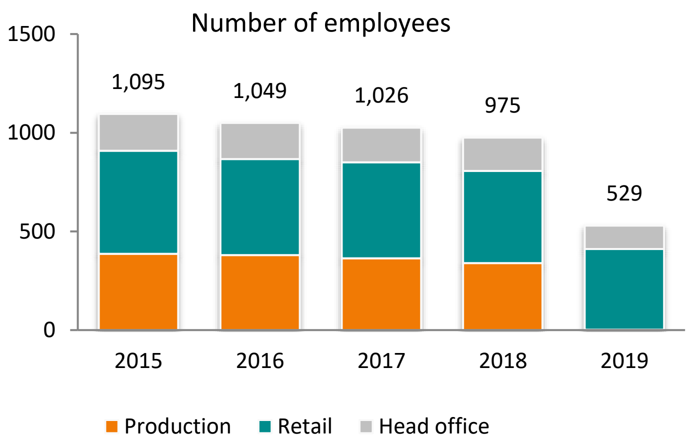
As at 31 December 2019, the equity attributable to equity holders of the parent company was 3,203 thousand euros (31.12.2018: 67 thousand euros).

CASH FLOWS

Baltika Group's cash flow from operating activities in 2019 was 4,817 thousand euros, increasing by 6,428 thousand euros compared to the previous year. The increase in cash flow is primarily connected with the additional depreciation of tangible and intangible assets and the decrease of value related with the implementation of IFRS 16 Leases. 700 thousand euros (2018: 600 thousand euros) from the cash flows of financing activities were invested into retail channel. Loans were repaid during the year in the amount of 3,732 thousand euros and with the decrease of the overdraft, 1,656 thousand euros were loans received (in 2018 bank loans increased with overdraft by 2,697 thousand euros). The Group's cash flow totalled -164 thousand euros (2018: -276 thousand euros), which means a cash balance of 264 thousand euros in the end of the year.

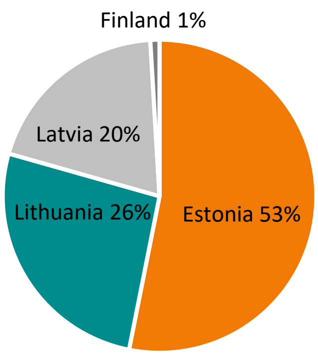
PEOPLE

As at 31 December 2019 Baltika Group employed 529 people that is 446 people less than as at 31 December 2018 (975). In October 2019, the production units in Estonia were closed, which reduced the number of production employees by 337. Due to the closure of stores and optimizing head office processes, the number of employees in retail and headquarter decreased by 109.



Baltika Group employees' remuneration expense in 2019 amounted to 10,555 thousand euros (2018: 10,729 thousand euros). The accrued remuneration of the member of the Supervisory Board and Management Board totalled 485 thousand euros (2018: 237 thousand euros). The remuneration for the 2019 includes the severance pay of 198 thousand euros paid to Meelis Milder.

Breakdown of personnel by country at 31 December 2019



OUTLOOK AND OBJECTIVES FOR 2020

Economic environment

In the end of 2019 Eesti Pank forecasted that the Estonian economy will grow by about 2.3% in 2020, which is one percentage point lower than last year. In the next three years, economic growth will slow down as the outlook for foreign markets is weak and employment growth, which has been strong until now, will begin to moderate. Unemployment will increase in the coming years as the economy begins to cool down, while more people are entering the labor market. While demand for additional labor force will decrease in the coming years, wage pressure will remain. Under these circumstances, the annual average wage increase will fall between 5-6%. For Latvia and Lithuania, the expectations for 2020 are relatively similar to Estonia: according to European Commission economic growth will remain at about 2.4-2.6%. As a result, the fixed costs of companies are on the rise, and in order to remain competitive on both the domestic and export markets, it is necessary to invest more in digitization and increase efficiency.

In connection with the COVID-19 corona crisis in Europe, which started in March 2020, Eesti Pank has presented the 2020 outlook different scenarios. Restrictions caused by the coronavirus pandemic will significantly damage the operating opportunities of companies, and in 2020 the Estonian economy will decrease. The extent of the final economic damage caused by the coronavirus pandemic cannot be accurately predicted, but it is possible to give an approximate estimate of the magnitude of the economic downturn in different scenarios. The magnitude of the recession will depend on when the restrictions caused by the pandemic end and the normal operating environment is restored, and how companies will be able to survive the crisis. With a shorter period of restrictions, the economic recovery will be very rapid, but if the restrictions remain longer, there will be significantly more companies that will not be able to survive the crisis, and the economic recovery will be much more difficult.

According to the decision of the Government of Estonia, the emergency situation ended at the end of May. If, at the same time, restrictions are eased elsewhere in the world and a gradual recovery and normalization of economic activity of companies begins, the Estonian economy will decrease by about 6% this year. If the restriction period is extended, for example, to the beginning of August, it will take longer to recover from the recession. In this case, the Estonian economy would decrease by about 14%. One week, the prolongation of the emergency situation in Estonia and the postponement of the recovery of export markets are exacerbated by the economic downturn of 2020 by about half a percent.

The impact of the coronavirus pandemic on the economy is generally considered temporary and it is hoped that the economic situation will recover after the crisis. At the same time, we must be prepared for the crisis to be longer and deeper, and for the economy to become different as it recovers. The governments of all the Baltic countries have already announced effective decisions aimed at preventing corporate bankruptcies and redundancies, and at maintaining people's incomes.

According to the European Commission's spring economic forecast, Estonia's economic will decrease by 6.9% this year, which will turn to 5.9% economic growth by 2021, assuming that economic activity recovers in all sectors. In Latvia and Lithuania, the economy will decrease by 7% and 7.9% in 2020, respectively, which in 2021 will turn into economic growth of 6.4% and 7.4%, respectively. Economic recovery depends to a large extent on how quickly the European Union as a whole recovers. The current forecast is based on the assumption that confidence will gradually increase again in the second half of this year.

These events have a significant negative 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 2020 is to implement the reorganization plan and to complete the restructuring plan, which was successfully started in 2019.The main parts of action plan are:

- **Implementing a lean and more efficient organizational model.** Since 2019, one of Baltika's biggest focuses has been to reduce fixed costs and change its cost structure in order to ensure a sustainable model for the company to continue operating. In 2020, the focus will continue to be on drastically reducing fixed costs through making key processes more effective, increasing remote working and flexible working methods, and closing the logistics center and outsourcing logistics services.
- **Ensuring the success of the mainstream brand Monton.** In 2019 Monton, Mosaic and Bastion were merged under one brand - Monton. 2020 is a period of testing and adjusting the value proposition of the new brand to ensure the brand will be a success story across the Baltics.
- **Continually optimize the store network.** Starting from 2019, the focus is on Baltics retail market and E-shop. The same year started the synchronization of shop network in accordance with the renewed brand portfolio focusing on the best locations in the best centers. This process will continue in 2020 to ensure the optimal store portfolio by the end of the year.
- **E-shop renewal and growth.** In 2020, the focus will be on continued E-store sales growth to help offset the partial decline in retail revenue due to the change in Baltika Group`s brand portfolio which affects the consumer behaviour. The plan is to upgrade the e-shop to make it more consumer friendly and to align it with today's consumer shopping habits.

2019 Consolidated Annual Report (in thousands of euros)

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 its will to 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, different cultures and nationalities.

As at 31 December 2019, Baltika employed 529 people, which is 446 people fewer than on 31 December 2018 (975). In total, 408 people worked in retail (31 December 2018: 467), 2 in production (31 December 2018: 339) and 119 at the headquarters and the logistics centre (31 December 2018: 169).

On October 31, 2019, the Baltika Group's production unit closed operations, which resulted in a reduction in the number of Baltika Group's employees by 337. The number of people working in the markets were distributed as follows: 279 in Estonia (31.12.2018: 702), 104 in Latvia (31.12.2018: 113) and 139 in Lithuania (31.12.2018: 154), and 5 persons worked in the Finnish subsidiary of Baltika Group (31.12.2018: 6)

The personnel of Baltika Group in 2019 consisted:

- 5.5% men and 94.5% women;
- 39.3 years is the average age in Baltika Group;
- The average length of service in Baltika Group is 6.5 years;
- People of 8 different nationalities work at Baltika Group.

Baltika Group's personnel by units

	Personnel 31 Dec 2019	%	Men (%)	Women (%)	Started working in 2019	Left during 2019
Baltika AS	119	22.5%	3.8%	18.7%	18	68
Baltika Tailor OÜ	2	0.4%	0.2%	0.2%	15	337
Retail, thereof	408	77.1%	1.7%	75.4%	228	296
Estonia	160	30.2%	0.6%	29.7%	62	95
Lithuania	139	26.3%	0.2%	26.1%	81	96
Latvia	104	19.7%	0.6%	19.1%	79	96
Finland	5	0.9%	0.4%	0.6%	6	9
Baltika Group	**529**	**100%**	**6%**	**94%**	**261**	**701**

2019 Consolidated Annual Report (in thousands of euros)

Baltika Group's personnel by markets

	Personnel 31 Dec 2019	%	Men (%)	Women (%)	Started working in 2019	Left during 2019
Estonia	281	53.1%	4.5%	48.6%	95	500
Lithuania	139	26.3%	0.2%	26.1%	81	96
Latvia	104	19.7%	0.6%	19.1%	79	96
Finland	5	0.9%	0.4%	0.6%	6	9
Baltika Group	**529**	**100%**	**6%**	**94%**	**261**	**701**

Changes in the organizational structure related with the Baltika Group's restructuring plan

In March 2019, Baltika Group announced via stock exchange announcement of its radical restructuring plan an in March, Mae Leyrer a senior executive with international experience joined Baltika's Management Board to turn company around. Instead of expanding internationally, the company will continue to focus on sales in Baltic markets, simplifying business processes and reducing operating costs. In October the production units in Estonia were closed and in 2019 the Bastion trademark disappeared as a result of the merger of the brands. As of January 2019, due to the reorganisation of the brand portfolio, the collections teams began work on renewed teams. Alongside the collection teams, a new Department of Accessories and Special Collections was created for sourcing accessories, expanding the assortment of merchandise groups, updating the sourcing base and creating special collections for mainstream brands.

In addition, the product development process has been renewed and the trend towards greater digitalisation and customer-centered thinking continues. In inventory management a system based on artificial intelligence and machine learning was implemented, which led to a change in the structure of the team and consequently in the structure of the sales planning and inventory management department. In 2019, Baltika's management of its largest sales channel, retail, was transferred to a unified management model to ensure a common operating model for the markets and effective cooperation. A new position - Retail Manager was created to co-ordinate activities in the Baltic and Finnish retail markets with the aim of implementing the Baltika Group's retail strategy.

As the structure of the organization changes, so change the way of working. More work is done on project teams, and more and more matrix management is used. The structure, organization and frequency of meetings have been updated. The use of technological solutions for organising meetings and storing important information has increased.

Employee satisfaction and motivation

In August 2019 a new Group HR Manager joined Baltika. In the second half of the year, a Group-wide mapping "Baltika Group as a Dream Employer: Which Aspects and Support for Becoming a Dream Employer and Which Not?" was organised.

Based on the results of the mapping and the strategic direction of the company, four main goals until 2021 together with Group's people were created:

- The motivation of key people working in retail (stores) is supported,
- The professionalism of management has increased,
- The internal health of the organization has improved,
- The sense of unity has increased.

In addition, a Heartbeat survey was launched to survey the health of employees at Baltika Group after every two months. Heartbeat aim is to reflect a holistic view of the well-being of people throughout the Group and to create the prerequisites for timely notice and action. The success of Baltika Group lies in our people, who feel they are valued. Baltika Group Three Values: *Creating Solutions, Together Everything and Thinking Without Borders!* they are not just words on paper, but they will be followed in organization.

In 2019, the entire headquarter people moved from two floors to one floor. In order to keep people and create opportunities for employees to shape their work rhythm and focus environment, working practices and opportunities for working remotely were also agreed through collaborative Good Practice. Feedback from fresh employees will also be continued, which has been used to update this process and collect qualitative data to improve the internal health and functioning of the organization.

Recruitment and growth

2019 was not an active year of recruitment, recruitments with out-of-house searches were conducted only to find new people to replace the left employees. Regarding to employer branding, a series called "Our People" was launched, presenting great people throughout the Group, both within the organization and through the social media.

To ensure succession, close cooperation with various Estonian higher education institutions (EKA, TTK, Tallinn University of Technology) will continue and Baltika will be a strong internship base for students. Every year, the Baltika Group has many trainees at the internship, who often become new employees. In 2019, the traineeship had over 30 trainees, of whom three took up vacancies after the traineeship. The recruitment announcement format was also updated to differentiate itself from other employers on the labor market and tell our own story.

Example of updated job ad Title Page


"Tõde ja õigus" ei pruugi olla Sinu lemmikraamat. Kartulisalat ei pruugi olla Sinu lemmiktoit. Saunas käimine ei pruugi olla Sinu lemmiktegevus. Koorilaul ei pruugi olla Sinu lemmikmuusika.
Aga nii nagu kartulisalat, külm jaanipäev ja koorilaul on meie, eestimaalaste moodi,
vajab Eesti ka meie moodi moodi.

Baltika on Baltikumi suurim moeettevõte, mis on tegutsenud 91 aastat. Hoolimata väljakutsetest anname kõik endast, et tugevas konkurentsis ellu jääda ning tagada Eesti moe särav tulevik. Meie teeme Eesti moodi moodi ja usume sellesse.

Vaata, mida ootame sinult ja mida vastu pakume
www.baltikagroup.com/et/meie-toopakkumised/

Kontakt:

Baltika Group

Occupational health and safety

Addressing occupational health and safety is important for the company due to the specific nature of the retail industry. Baltika recognizes and takes them into account in its daily activities, which is confirmed by the small number of accidents at workplace. In 2019, Baltika Group had 1 accident at work.

Employee engagement and workplace happiness

The aim of Baltika's satisfaction survey is to provide feedback and input for the company's strategic decisions concerning employees. In February 2019, a survey of cross-market satisfaction was conducted.

Baltika's doors are always open to outside guests: throughout the year, different groups of students who wish to visit Baltika as a company and textile representative are welcomed. There is a wide interest in Baltika: both high school students and students from universities such as EKA and Tallinn University of Technology. In 2019, visits were made during the "Work with You" event which hosted in total of 57 people.

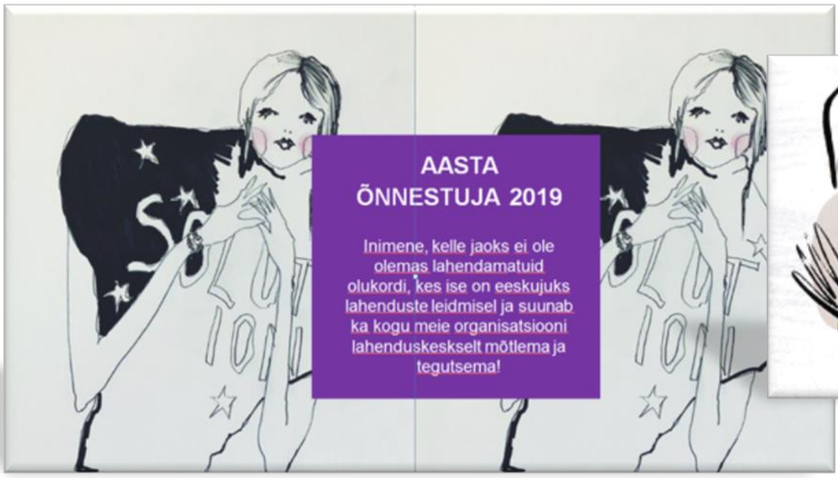
In addition to improving professional skills, Baltika pays special attention to raising employees' health awareness. Starting in 2016, Baltika Health Week is organised twice a year (in spring and autumn), with various events aimed of raising employees' health awareness and inviting them to practice more active lifestyle. The theme for Health Week 2019 was Caring and Security. Under these keywords were organized events and activities for employees. Participation in the Health Week has increased with each passing week and volunteers are involved in the organization of the week.

Baltika Group as an employer

Baltika Group is guided by the following values:

- longtime employees are remembered and recognized at the company's biggest event of the year. Job jubilees are recognized annually, starting from the 5th year, and a new job jubilee is held every 5 years,
- employees are offered extra holiday days based on their seniority,
- recognizing graduates;
- the importance of spending time together outside work is valued and for employees fun events are organised;
- it is considered important to encourage employees to join discussions on topics related to the progress of the organization and in the organization and organising of various events. For example, brainstorming was carried out where our employees could come up with their own ideas that Baltika Group should implement in order to be a viable and successful organization. Events where our people were able to contribute to the organization were for example the Moving Party and Health Week.

Example from Baltika Group's 2019 Notices



2019 was a year of planning the goals and activities of the future management culture, the work done with the people and the working environment of the desired organization. These plans will be actively implemented in 2020.

CUSTOMER EXPERIENCE MANAGMENT

In Baltika Group, the following principles guide sales activities, the store operating practices and customer communications:

- Customer communication and marketing and advertising activities are based on the internal activity guidelines agreed in the group. In addition, Baltika Group also complies with all the norms established by law in its home markets.
- Retail Operations Manual. The document contains complete information about the group, brands, customer programme, customer communication and customer service standards, customer complaint handling

procedure, consumer protection, work safety, products and product handling and display, retail trade indicators, employee motivation systems, etc. The document is updated every year. A similar manual has also been developed for Baltika Group’s franchise partners. The aim of the manual is to ensure that the customer experience in stores operating under the Baltika brand is high quality and the same as in Baltika Group`s own retail stores.

In 2019, several processes leading to greater customer focus were launched in the organization.

- In 2019, the roles of all Baltika Group's teams and each employee in the organization to provide a better customer experience were jointly defined,
- In spring 2019, customer engagement into collection creation process began. In addition to retrospective feedback, information was collected from customers at various stages of the development process, which are between product design and sales. The first collection created 100% based on new process will be on sale in early 2020,
- From loyal customers of Monton, Mosaic, Ivo Nikkolo and Baltman input was collected on various customer experience projects through questionnaires, individual and group interviews,
- In 2019, regular customer surveys were conducted to collect feedback on the customer-friendliness of existing processes. The survey provided valuable insight into loyal customer purchase behavior, product price, quality and suitability,
- In 2019, preparation activities were started to merge the Monton, Bastion and Mosaic branding experience and to prepare customers for 2020, when brands will be merged to Monton,
- In 2019, a renewed retail concept for the Monton brand was developed and eight retail stores were renovated accordingly: 3 stores in Estonia, 3 in Latvia and 2 in Lithuania. This was the beginning of the merger of Monton, Bastion and Mosaic brands into one retail space.
- To ensure unified customer experience across retail markets, cooperation between Baltika Group Sales, Marketing, Customer Experience and Retail Organizations was strengthened to ensure that the sales organization is better trained and involved in developing the customer experience,
- systematic management of the customer's life cycle was started, which values contacts with regular customers by sending them more personal messages. Marketing processes were also automated to optimize resources invested in customer communications.

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 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

Community activities of Baltika Group

In order to support a positive image and achieve the common goals of Baltika Group, the company has for years engaged in the development of the fashion and clothes industry and the creative industry community. Baltika Group supports the fashion design department of the Estonian Academy of Arts and the areas of specialisation related to the clothes industry at the Tallinn University of Applied Sciences, supporting the education of young fashion design students with a monetary grant under a cooperation agreement and involving students in various high-level training courses offered to the employees of the Baltika Group. In addition, in 2019 the chief specialists and department heads of Baltika Group gave lectures and conducted training events for the students of the Estonian Academy of Arts and engaged students in the creation of collections. Baltika Group and the Estonian Academy of Arts, the Tallinn Industrial Education Centre, the Tallinn University of Applied Sciences and Tallinn University of Technology have established a well-functioning practice placement system in the framework of which design and clothes industry students can obtain practical knowledge at Baltika Group. In addition, all the students of clothes design and technology areas in Estonia are taken on excursions to Baltika Group's production and logistics units as well as to the headquarters in order to give the students a good overview of the functioning of a clothes industry enterprise.

Baltika Group is also involved in activities related to supporting and developing the creative industry business. To this end, the members of Baltika Group's management belong to the management board of the Estonian Service Industry Association, the management board of the Estonian Fashion Brands Association, the Estonian Clothing and Textile Association and the management board of the Estonian Traders' Association, working in those professional associations and non-profit organisations outside their everyday work to promote the creative and clothes industry in Estonia.

Regarding to sponsorship, charity and community activities, Baltika Group relies on Baltika Group`s values and sponsorship principles. Baltika Group strives to be a responsibly operating member of society and contribute towards preserving/developing the heritage of Estonian fashion design and clothes industry as well as towards encouraging design approaches.

Baltika Group therefore supported various activities in 2019 to inspire and recognise a new generation of fashion designers. Those fashion events included Moelennuk, the fashion show 'Pink Scissors' of Rocca Al Mare School etc.

Sponsorship on Baltika Group's retail markets

Monton

Monton has supported the Estonian Olympic Committee since 2004, when Monton's designers have created clothing for the Olympic Games for Estonian athletes. Specifically designed for the Olympic Games, Estonian athletes have been wearing in Athens, Turin, Beijing, Vancouver, London, Sochi and Rio de Janeiro and PyeongChangis. Preparations for the creation of the 2020 Tokyo Summer Olympics Collection also began in 2019.

Already since 2006, Baltika Group has been sponsoring the Estonian national football team, dressing the best Estonian footballers. Until 2018, it was done under the Baltman brand, and from 2019 under the Monton brand. National team players, coaches and support staff wear Monton suits that are best suited to their needs in terms of comfort and quality. The first players of the Estonian football team also participated in the season-opening campaign of the renewed Monton men's collection.

In 2019, Monton took over from Mosaic a long-term partnership with BC Kalev Cramo. Team players will wear Monton suits in race tours and other formal events.

In Lithuanian market, Monton has a partnership with the local beach volleyball federation. Well-known and country champions Ieva Dumbauskaitė and Monika Povilaitytė are Monton brand ambassadors and have participated in various local events to support the brand.

For several years Monton has supported Estonia's most successful student company, which represents Estonia in the competition of the best student companies in Europe. The team of Hugo Treffner Gymnasium, which manufactures hair styling and care products, was awarded the best student company in Estonia in 2019.

Monton's clothes were also proudly worn by Estonian schoolchildren, who represented the country at various international Olympiads around the world and returned with many prize-winning places.

Baltman

Baltman has been creating world class business attire in the Baltics for a quarter of a century. The brand’s aim is to recognize and praise fearless people. In Lithuania, Baltman continued his partnership with the country's most successful athletes in 2019. Baltman became a supporter of the Lithuanian National Basketball Federation. All Federation members and coaches wear Baltman suits when communicating with media or in other official situations. From 2018, Baltika Group`s biggest suit - basketball legend Arvydas Sabonis, who is President of the Federation - was created. Arvydas Sabonis is 2 meters and 21 centimeters tall and carries the suit number 68.

Photo: President of the Lithuanian Federal Basketball Federation Arvydas Sabonis

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 as 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 values suppliers as its strategic partners. With many suppliers the cooperation has been done for many years, therefore partners know each other very well. Our main partners are in Turkey, Europe (Lithuania, Italy) and the Far East.Baltika Group is demanding when it comes to suppliers – the company values accountability, personal feedback, strategic and long-term cooperation. In order to ensure responsible production, employees at Baltika Group conduct audits among all existing and potential new cooperation partners. The company has created detailed questionnaires for evaluating the partner's conformity. In addition to the audit carried out by Baltika Group, many partners have implemented environment management systems and/or quality certificates (e.g. Oekotex).

PRODUCTS AND QUALITY

The high quality of products is very important for Baltika Group. A high-quality garment has a longer life span and allows for re-use, which is a crucial environmental factor in the clothes industry. Baltika Group has professional employees, and the company has developed a thorough quality control process. For example, a part of this process is test-wearing of the products to analyse their fit and durability. In past years control is increased over suppliers' material technical documents that allows to eliminate fabrics not meeting quality expectation in early stages of product creation.

One of the most important parts of the product quality assurance process is the quality control of finished goods. All new goods are shipped by the suppliers to the Baltika Group's logistics center, where the products pass quality control according to established rules. The products shall be checked up to 100% if necessary.Baltika Group is constantly working towards ensuring that clients find their clothes a great fit and of high quality. Therefore, the company has established specific indicators to measure the level of quality, and the amount of defective products. Thus, the amount of defective products is measured at three levels:

- At Baltika Group`s warehouse by the quality department
- At Baltika Group`s stores by employees (defects sustained during transport or handling in the store)
- Amount returned by clients

Since materials of animal origin are also used in collections, the Supplier Manual regulates the issue of treatment of animals. The main principles are:

- Cruel treatment of animals is forbidden
- Skin must not be removed from a live animal
- Feathers must not be plucked from live birds
- Wool or fur is sheared, not plucked from a live animal together with skin
- No products must be sourced from endangered species

In 2019, Baltika Group imlemented a 3D product development tool. 3D aims to reduce the number of physical samples and speed up the product development process. Thus, the amount of materials used for product development and transportation costs will be reduced and, in the end, the product development will be more environmentally friendly.

Photo: Skirt created with 3D Product Development Tool

USE OF MATERIALS AND RESOURCES

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

Baltika Group follows a sustainable way of thinking and recycling trends in developing its store concepts and setting up stores. Therefore, reuse of different materials and furniture items carries an important role in retail concepts. Technical and lighting solutions are designed following the principle of energy efficiency. In this area, the group cooperates with industry leaders and includes their expertise in new developments. Baltika Group uses a considerable amount of old furniture in developing store concepts and creating store environments and contributes to its renovation and restoration. Several stores feature pieces of furniture found in a poor state and then restored, for example turning machines and chairs from the 19th century Estonian households and soft furniture from the 20th century, which has been used in creating new store concepts and through that given a new life and function. To reduce negative environmental impact during the stores renovation and choosing materials before the renovation of each store, a renovation audit is conducted. During the audit the investment needs in new furniture and technical equipment are determined, also, an inventory is conducted to determine the opportunities for using existing technical equipment or furniture.

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

- For Mosaic, 5% of the total range of 2019 products sold was recycled. Of the fibers, the most recycled polyester was made from recycled plastic bottles.
- From the 2020 collections, Monton will have 10% of the selection of eco-friendly materials. In addition, Monton has started to use eco-friendly batting in its collections in 2020: Sorona filling made from organic Sustans and recycled fake down. Since 2020, much of the Monton labels has been produced from recycled material. In addition, Monton has also taken the first steps towards zero-waste production. For this purpose 7 zero waste models for the Monton 2020 Spring Collection have been developed in collaboration with EKA students.
- Ivo Nikkolo has always valued quality and has invested heavily in design that lasts for a long time and the high and durable quality of the products. The fabrics used for sewing Ivo Nikkolo clothings are manufactured by European fabric manufacturers that value sustainable production. The factories' green production programs are very comprehensive and are being updated year by year. In addition, Ivo Nikkolo scarves have 30% silk dyed in sustainable colors in the spring season 2020 and Ivo Nikkolo hats in the autumn season are made from recycled cashmere. By 2021, it is planned that at least 10% of Ivo Nikkolo's product range will be made from recycled fibers or sustainably sourced fabrics (ecovero viscose, recycled polyester).

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

- Starting from 2020, Monton men's shirts will be wrapped in biodegradable plastic bags and the collars will be packed into cardboard instead of plastic.
- Also, a large part of Ivo Nikkolo's products are packaged into plastic which is made from plastic bottles from the second half of 2020.
- Since 2020, Monton and Baltman hats are packed into FSC-certified cardboard boxes. The FSC certification ensures that the material for making the boxes comes from forests that are managed responsibly and in accordance with standards.
- 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;
    - Cardboard packages are returned to the central warehouse from Baltika Group stores, where they are reused for packaging and transporting products. Film materials used for product transport are collected and utilised by department stores;

In addition to furniture and package material reuse the efficient usage of stock excess and existing materials is important as well. Thus, a precise material computation and overview of inventories is available: when possible, the usage of existing materials is preferred to purchasing new fabrics and the group also actively cooperates with small enterprises, schools, kindergartens and craftsmen to ensure that textile waste and surplus clothes are efficiently re-used. For example:

- Surplus ready-made clothes (final remaining items of collections) are donated
- Fabric samples are 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 2019 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 3,800 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 into 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

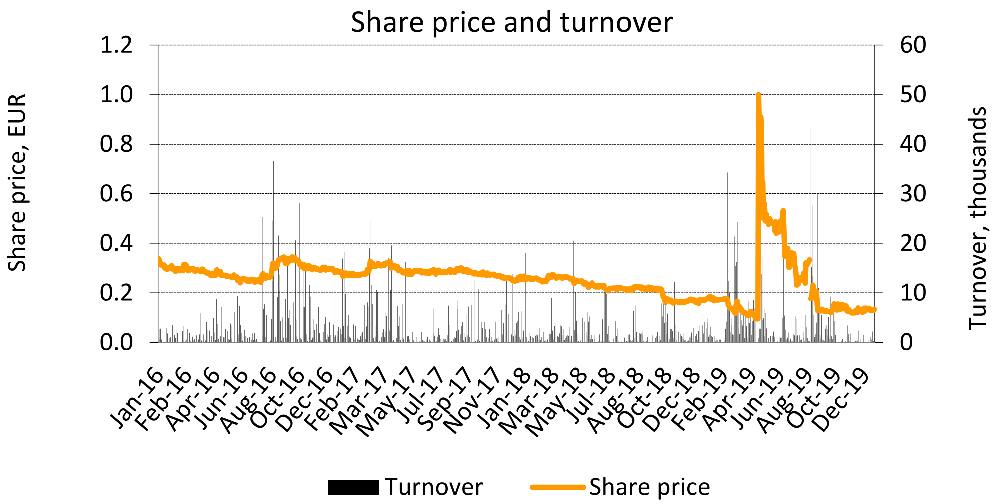
Baltika's ordinary shares are listed on the NASDAQ Tallinn Stock Exchange and carry equal voting and dividend rights. In the text below (the key share data, share price and trading figures, shareholder structure), any reference to AS Baltika's "share" or "shares" is a reference to ordinary shares unless 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 2019 the price of the Baltika share decreased by 16% to 0.135euros, the Group's year-end market capitalisation was 7.3 million euros. During the same period, the OMX Tallinn All-Share Index increased by 10%.



Share trading history

EUR	2015	2016	2017	2018	2019
High	0.49	0.35	0.33	0.28	1.00
Low	0.29	0.24	0.25	0.16	0.10
Average	0.36	0.29	0.29	0.22	0.55
Year-end price	0.34	0.28	0.25	0.16	0.14
Change, %	-26%	-18%	-10%	-36%	-16%
Traded volume	3,153,469	2,580,854	2,607,312	5,597,022	5,116,639
Turnover, in millions	1.12	0.77	0.75	1.04	0.86

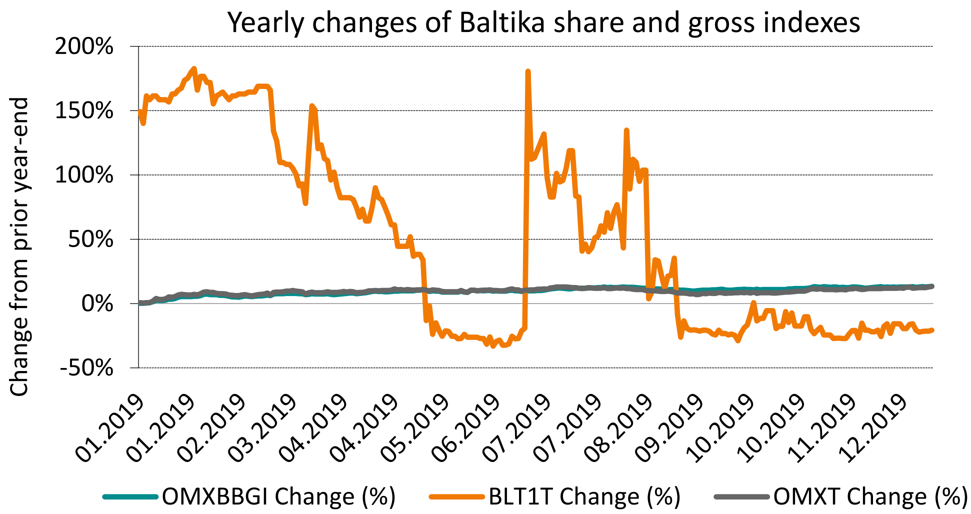
Indices

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 March 2020 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

2019 Consolidated Annual Report (in thousands of euros)



Shareholders structure

At the end of 2019, AS Baltika had 1,638 shareholders. The number of shareholders decreased by 50 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 2019. 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 2019	**Number of shares**	**Holding**
ING LUXEMBOURG S.A.	48,526,500	89.73%
AS Genteel	1,297,641	2.40%
Clearstream Banking AG	1,070,500	1.98%
AB SEB BANKAS	245,917	0.45%
Kaima Capital Eesti OÜ	231,578	0.43%
ZINA KEVVAI	224,210	0.41%
SWEDBANK AS, LATVIA	187,881	0.35%
RIGTOTRIP OÜ	177,137	0.33%
Others	2,118,121	3.93%
Total	**54,079,485**	**100%**

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

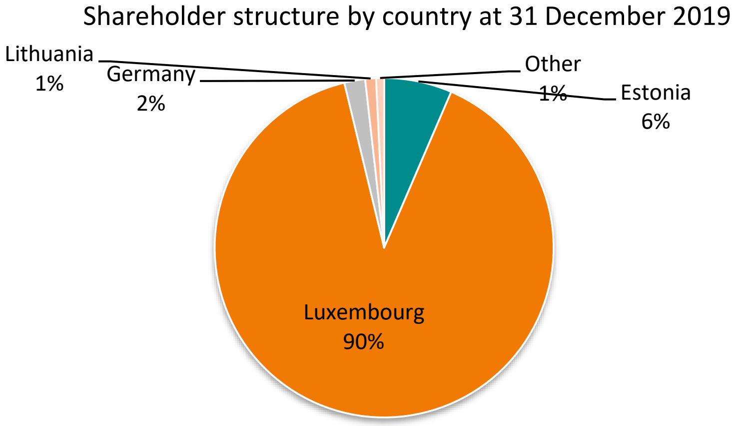
Shareholder structure by shareholder type as at 31 December 2019

	Number of shares	**Holding**
Legal persons	52,580,049	97.23%
Individuals	1,499,436	2.77%
Total	**54,079,485**	**100%**

2019 Consolidated Annual Report (in thousands of euros)

Shareholder structure by size of holding as at 31 December 2019

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	1	0.06%	48,526,500	89.73%
1,0 - 10,0%	2	0.12%	2,368,141	4.38%
0,1 - 1,0%	15	0.92%	1,925,201	3.56%
< 0,1%	1,620	98.90%	1,259,643	2.33%
Total	**1,638**	**100%**	**54,079,485**	**100%**



Share capital

As at the end of the first quarter of 2019, the Company's equity was negative and the shareholders' meeting held on April 12, 2019 made the following decisions to restore equity and comply with the requirements of the Commercial Code: to increase the nominal value of the share of AS Baltika to 1 euro and to exchange existing shares so that for each 10 shares 1 new share can be received, then to reduce the nominal value of the share to 0.10 euro and to reduce share capital from 4,079 thousand euros to 408 thousand euros. In addition, a decision was made that in August 2019 to increase the share capital by 5 million euros through a public offering by issuing 50,000,000 ordinary shares with a nominal value of 0.10 euro. After the issue, the company's share capital will increase by 5,000,000 euros and the new share capital will be 5,407,949 euros.

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**

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, 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.

Baltika Group ended 2019 with a consolidated net loss of 5.9 million 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.

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of Nasdaq Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, 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 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.

The General Meeting took place on April 12, 2019, which was attended by Meelis Milder, Chairman of the Management Board, Maigi Pärnik-Pernik and Mae Leyrer members of the Management Board and certified auditor Eva Jansen-Diener and certified auditor in charge Tiit Raimla from AS PricewaterhouseCoopers, who has been auditing AS Baltika. Reet Saks member of Supervisory Board participated, who also led the meeting.

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.

Since AS Baltika does not have the required technical equipment that would allow secure identification of the shareholders, observation of the General Meeting and participation thereof is not possible by means of communication equipment. Since the majority of the AS Baltika shareholders are overseas' residents, providing secure identification of the participants would be too cost prohibitive.

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 on April 12, 2019 the profit distribution was discussed and decided 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 2019, the figure amounted to 0.5 million euros. The contractual severance benefits of members of the Management Board range from 3 to 18 fold monthly remuneration depending on the period of service. The resignation payment of Meelis Milder, who resigned in 2019 as Chairman of the Management Board, was 198 thousand euros. Baltika Group's employees are eligible to performance pay, which in case of markets is based on the fulfilment of profit target of profit centres, in case of Baltika head-office employees, it is based on the fulfilment of Baltika Group profit targets. From 2016 the chairman´s and members´ of the Management Board performance pay is based on the fulfilment or exceeding of EBITDA target and can be 0-10 months monthly salary accordingly. Baltika Group can pay up to 50% of the expected bonus amounts in advance during the year; the final amount is calculated and paid out after the financial statements have been audited. The bonus of the chairman of the Management Board/CEO is determined by the Supervisory Board. The bonuses of members of the Management Board are determined by the chairman of the Supervisory Board based on the proposal made by the chairman of the Management Board. Baltika Group discloses the total amount of remuneration expense to the members of the Management Board in Note 26 of the Annual Report.

Members of the Management Board can receive one funded pension contribution of up to one month's salary per year, provided after they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the Baltika Group's internal rules. Share option program that was approved on 16 May 2018 Annual General Meeting of Shareholders was issued also to the members 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 27 April 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 2019 nor 2018 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).

On AS Baltika website http://www.baltikagroup.com/faq/ new Q&A webpage is available to all stakeholders, through which all may ask questions and get information about the company's activities between quarterly reports. The questions received and the answers of AS Baltika will be published on AS Baltika's Q&A page in order to allow everyone equal and prompt access to Baltika's strategy, activities, business plan and other information.

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 convened on 8 May 2017, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2017–2019. Independent Auditor's Report of 2019 will be signed by certified auditor in charge Tiit Raimla. 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 Baltika in the recruitment of staff and management 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

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 once a year within six months after the end of the Baltika's financial year. An extraordinary General Meeting is called by the Management Board when the Baltika'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 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 on 12 April 2019 at 24 Veerenni in Tallinn, Estonia. A total of 32,457,975 shares were represented i.e. 79.56% of the voting shares. In accordance with good practise the shareholders had the possibility to ask questions in addition to Management Board members also from the auditor. The meeting approved the company's 2018 annual report, profit allocation proposal for 2018, recalling of a member of the Supervisory Board, amendment of the Articles of Association, exchange of shares, amendment of the Articles of Association, reduction of the share capital and increase of the share capital.

In 2019, an extraordinary general meeting of shareholders of AS Baltika was held on May 30 in Veerenni, 24, Tallinn. A total of 2,744,218 shares were represented i.e. 67.27% of the voting shares. In accordance with good practice, the shareholders had the opportunity to ask questions of the management board. The General Meeting approved the amendment of the Articles of Association.

In 2019, an extraordinary general meeting of shareholders of AS Baltika was held on October 8 in Veerenni, 24, Tallinn. A total of 49,993,303 shares were represented i.e. 92.44% of the voting shares. In accordance with good practice, the shareholders had the opportunity to ask questions of the management board. The General Meeting approved the election and remuneration of the new Supervisory Board member.

Shareholders with significant share of Baltika's ordinary shares at the end of 2019 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 2019.

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.

The General Meeting of Shareholders held on April 12, 2019 recalled the member of the Supervisory Board Valdo Kalm. October 8, 2019 Extraordinary General Meeting of Shareholders approved Kristjan Kotkas as a new member of the Supervisory Board.

Kristjan Kotkas has been a General Counsel at KJK Capital Oy since April 2019. During the years 2011-2019, Kotkas worked as a sworn attorney at Cobalt Law Firm. Kotkas holds master's degrees in law from the University of Tartu and the University of Cape Town. Kristjan Kotkas is a member of the Management Board of KJK III Participations S.a.r.l, Rondebosch OÜ, Protea Invest OÜ and the MTÜ Eesti Ragbi Liit. In addition, Kotkas is the President of the MTÜ Tallinna Kalev RFC. Kristjan Kotkas does not own any shares of AS Baltika.

Two Boards members own AS Baltika's shares: Tiina Mõis owns 1,297,541 ordinary shares i.e. 2.4% of share capital through the company under her control and Lauri Kustaa Äimä 231,578 ordinary shares i.e. 0.4% as at the end of 2019.

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 not remunerated for serving on the committee. AS Baltika's audit committee is chaired by Reet Saks. Members of the committee are Tiina Mõis and Jaakko Sakari Mikael Salmelin.

In 2019 the audit committee did not gather. The 2019 interim audit observations were submitted to the Audit Committee by the representatives of the audit firm AS PricewaterhouseCoopers on 23.01.2020.

Information in public interest entities Management report regarding services from auditor
During 2019, the auditor of AS Baltika has not provided the Group with a limited insurance engagement to verify the packaging report, tax advisory services or other other advisory services permitted under the Auditing Act of the Republic of Estonia.

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 has to 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: Mae Leyrer and Maigi Pärnik-Pernik.

Mae Leyrer is responsible for Sales and Marketing, and Maigi Pärnik-Pernik is responsible for product development and support functions.

On March 14, 2019, the Supervisory Board decided to approve Mae Leyrer as a new member of the Management Board as of March 22, 2019. On June 26, 2019, the Supervisory Board decided to accept the resignation letter of Meelis Milder, Chairman of the Management Board. On the same day, Meelis Milder's proxy as member of the Management Board expired. Meelis Milder will continue from June 26, 2019 as an advisor to the Supervisory Board based on a one year agreement.

According to the decision of the Supervisory Board held in 11 March, Flavio Perini will be the new CEO and Chairman of Management Board of AS Baltika since 1 April 2020. Mae Leyrer, Member of the Management Board of AS 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 by 22 May 2020 according to the decision made on 11 March by Supervisory Board. Until the end of the contracts, both Leyrer and Pärnik-Pernik, as members of the management board, continued actively implementing company's restructuring plan, while gradually transferring management to the new Management Board.

Flavio Perin has more than 22 years of experience in the international fashion business where he has worked with famous brands like Levi`s, Prenatal, Max Mara and OKAID. He has led companies` restructuring, change management and international expansion projects in Eastern Europe, Middle East, Asia and South America. Perini holds a law degree (Università degli Studi di Parma). For the past three years, Flavio Perini has served as General Manager at Original Marines, an Italian leading children's clothing company, and as Global Franchise and Wholesale Director at SMYK GROUP, a Polish retail company part of the private equity portfolio of Bridgepoint

Capital LTD. Flavio Perini is not a member of the Management Board or Supervisory Board of any other company and does not own any shares of AS Baltika.

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.

On August 16, 2019, AS Baltika announced the following significant changes in ownership: As a result of the registration of the share capital increase on 13.08.2019, KJK Fund Sicav-SIF (ING LUXEMBOURG S.A. AIF ACCOUNT account) increased its holding in AS Baltika to 89.69% and E. Miroglio Finance S.A. (Clearstream Banking Luxembourg S.A. account) holding in AS Baltika decreased to 1.97%.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2019 consolidated financial statements as presented on pages 48 to 105.

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
Member of the Management Board, CEO
15 July 2020

2019 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019	31 December 2018
ASSETS			
Current assets			
Cash and cash equivalents	4	264	428
Trade and other receivables	5	621	866
Inventories	6	7,644	10,707
Assets classified as held for sale		28	0
Total current assets		**8,557**	**12,001**
Non-current assets			
Deferred income tax asset	7	281	286
Other non-current assets	8	222	287
Property, plant and equipment	9	1,683	1,878
Right-of-use assets	11	16,040	0
Intangible assets	10	536	543
Total non-current assets		**18,762**	**2,994**
TOTAL ASSETS		**27,319**	**14,995**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	1,731	7,829
Lease liabilities	11	5,383	0
Trade and other payables	13,14	4,118	5,934
Total current liabilities		**11,232**	**13,763**
Non-current liabilities			
Borrowings	12	488	1,165
Lease liabilities	11	12,396	0
Total non-current liabilities		**12,884**	**1,165**
TOTAL LIABILITIES		**24,116**	**14,928**
EQUITY			
Share capital at par value	15	5,408	4,079
Reserves	15	4,045	1,107
Retained earnings		-341	0
Net loss for the period		-5,909	-5,119
TOTAL EQUITY		**3,203**	**67**
TOTAL LIABILITIES AND EQUITY		**27,319**	**14,995**

The Notes presented on pages 53-105 are an integral part of these consolidated Financial Statements.

2019 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note	2019	2018
Revenue	16,17	39,630	44,691
Client bonus provision	17	81	0
Revenue after client bonus provision		39,711	44,691
Cost of goods sold	18	-20,520	-23,155
Gross profit		**19,191**	**21,536**
Distribution costs	19	-19,588	-21,579
Administrative and general expenses	20	-2,672	-2,375
Impairment loss of trade receivables	5,8	-31	-2,229
Other operating income (-expense)	22	-82	-16
Impairment loss of rights-of-use assets	11	-1,330	0
Operating loss		**-4,512**	**-4,663**
Finance costs	23	-1,391	-553
Loss before income tax		**-5,903**	**-5,216**
Income tax expense		-6	97
Net loss for the period		**-5,909**	**-5,119**
Total comprehensive income loss for the period		**-5,909**	**-5,119**
Basic earnings per share from net loss for the period, EUR	25	-0.16	-0.13
Diluted earnings per share from net loss for the period, EUR	25	-0.16	-0.13

The Notes presented on pages 53-105 are an integral part of these consolidated Financial Statements.

2019 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2019	2018
Cash flows from operating activities			
Operating loss		-4,512	-4,663
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	18,19,20,22	8,289	1,756
Gain (loss) from sale, impairment of PPE, non-current assets, net		-153	363
Other non-monetary adjustments		-184	2,570
Changes in working capital:			
Change in trade and other receivables	5,7,8	264	-872
Change in inventories	6	3,292	-517
Change in trade and other payables	13	-1,833	-50
Interest paid and other financial expense		-346	-198
Net cash generated from operating activities		**4,817**	**-1,611**
Cash flows from investing activities			
Acquisition of property, plant and equipment, intangibles	9,10	-749	-635
Proceeds from disposal of PPE		267	5
Net cash used in investing activities		**-482**	**-630**
Cash flows from financing activities			
Received borrowings	12	3,000	1,000
Repayments of borrowings	12	-3,732	-632
Change in bank overdraft	12	-1,344	1,697
Repayments of lease liabilities, principle (2018 - Repayments of finance lease)	12	-5,741	-100
Repayments of lease liabilities, interest	12	-837	0
Repayments of convertible bonds	12	-845	0
Proceeds from issues of shares	15	5,000	0
Net cash generated from (used in) financing activities		**-4,499**	**1,965**
Total cash flows		**-164**	**-276**
Cash and cash equivalents at the beginning of the period	4	**428**	**704**
Cash and cash equivalents at the end of the period	4	**264**	**428**
Change in cash and cash equivalents		**-164**	**-276**

The Notes presented on pages 53-105 are an integral part of these consolidated Financial Statements.

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Initials I.S. Date 15.07.2020

2019 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance as at 31 Dec 2017	**8,159**	**496**	**1,345**	**-4,814**	**5,186**
Loss for the period	0	0	0	-5,119	-5,119
Total comprehensive income	**0**	**0**	**0**	**-5,119**	**-5,119**
Reduction of the nominal value of the share	-4,080	-496	-238	4,814	**0**
Balance as at 31 Dec 2018	**4,079**	**0**	**1,107**	**-5,119**	**67**
Loss for the period	0	0	0	-5,909	-5,909
Total comprehensive loss	**0**	**0**	**0**	**-5,909**	**-5,909**
Reduction of the nominal value of the share	-3,671	0	-1,107	4,778	0
Issue of ordinary shares	5,000	0	0	0	5,000
Other reserve	0	0	4,045	0	4,045
Balance as at 31 Dec 2019	**5,408**	**0**	**4,045**	**-6,250**	**3,203**

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

The Notes presented on pages 53-105 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: Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo. Baltika employs a vertically integrated business model, which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics, wholesale and retail. As at 31 December 2019, Group had 82 Baltika's retail-stores in four markets - in the Baltics and Finland. As at 31 December 2019 Baltika Group employed 529 people (31 December 2018: 975).

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: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2019 was operating in Estonia, Latvia, Lithuania and Finland in retail markets and through franchise partners in Russia and Serbia. By the end of 2019 the franchise agreements were terminated.

The consolidated financial statements prepared for the financial year ended at 31 December 2019 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group): OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, 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 26 March 2020. 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 2019 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 accounting policies on initial application

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 2018.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The group has adopted IFRS 16 "Leases" retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Therefore, the information about the comparatives for the 2018 reporting period are presented under the previous leasing standard IAS 17 and respective interpretations. The cumulative effect of initially applying this standard has been recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

On initial application the group recognised right-to-use asset in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The group measured the lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at the date of initial application, i.e. 1 of January 2019. On initial application, the group applied the weighted average lessee's incremental borrowing rate of 5% to the lease liabilities.

Practical expedients on initial application

As a practical expedient, the group has elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard for leases previously classified as operating leases:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- not to apply the requirements of IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application;
- excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Measurement of lease liabilities on initial application

Lease liabilities that are recognised in the statement of financial position on initial application, are presented below:

In thousands of euros	
Future minimum lease payments in relation to non-cancellable operating leases as at 31 December 2018	20,716
Discounted using the lessee's incremental borrowing rate of 5% at the date of initial application	18,974
(Less): short-term leases not recognised as a liability	-420
Lease liability recognised in the statement of financial position as at 1 January 2019	18,554

Measurement of right-of-use assets on initial application

On initial application as at 1 January 2019, the group has measured the associated right-of-use asset at the amount equal to the lease liability.

Adjustments recognised

The Group has recognised in the statement of financial position the following adjustments as at 1 January 2019:

In thousands of euros	
Right-of-use assets – increase	18,554
Lease liabilities – increase	18,554
The net impact on retained earnings (-loss) on 1 January 2019	0

Effective Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2019.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. 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 effective for the first time for the financial year beginning on or after 1 January 2019 that had a material impact to the Group.

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 1 January 2020, and which the Group has not early adopted.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group assesses that there is no significant impact of application of the amendments to its financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 *(*effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. 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 and Finland 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 2019 and 31 December 2018 and during 2019, 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;
- -buildings	60	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 from 1 January 2019

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.

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.

Leases - accounting principles until 31 December 2018

Leases, in the case, of which the lessor retains substantially all the risks and rewards of ownership, are classified as operating leases. Other leases are classified as finance leases.

The Group as the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the statement of profit and loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets leased under finance leases are depreciated similarly to acquired non-current assets whereas the depreciation period is the lower of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

Payments made under operating leases are charged to the statement of profit and loss on a straight-line basis over the lease term.

The future minimum lease payments under non-cancellable operating leases are calculated based on the non-cancellable periods of the leases taking into account the following criteria:

- Should the termination of the agreement require a mutual agreement, lease payments for the three-month period are taken into consideration;
- Should the termination of the agreement require an advance notice, lease payments due within the advance notice period are taken into consideration.

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.

Statutory reserve

In accordance with the Commercial Code, statutory reserve has been set up from annual net profit allocations. During each financial year, at least one-twentieth of the net profit should be transferred to reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Share-based payments

The fair value of services (work contribution) supplied by the employees to the Group in exchange for the shares is recognised as an expense in the statement of profit and loss and in share premium in equity during the vesting period (from the grant date of convertible bonds until the vesting date). The fair value of the services received is determined by reference to the fair value (market value) of equity instruments granted to the employees at the grant date. For the employee to receive the right to be able to convert the convertible bond into shares under the share-based payment agreement, there must be an existing employment relationship and therefore at each balance sheet date, the number of estimated convertible bonds expected to be vested is assessed and personnel expenses as well as share premium items are adjusted to reflect the change in the number of bonds expected to be converted. The amounts received for shares upon the conversion of a convertible bond less direct transaction costs is recognised in the items “Share capital” and “Share premium” in equity.

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 31.12.2019 and 31.12.2018 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.

Wholesale, franchise and e-commerce

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.

Client bonus provision

The Group operates a client loyalty programme where retail customers accumulate bonus-points for purchases made which entitle them to discounts on future purchases. Bonus-points expire after six months from the customer´s last purchase. A contract liability for the bonus-points is recognised at the time of the sale as a reduction of revenue and by recognizing related provision in the statement of financial position using estimates for probable redemption of bonus-points.

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

The 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.

Corporate income tax in other countries

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

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.

2019 Consolidated Annual Report (in thousands of euros)

Corporate income tax rates

	2019	2018
Lithuania	15%	15%
Finland	20%	20%

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 carry-forwards. 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), assessment of impairment non-current assets (Note, 9, 10, 11), impairment testing of goodwill (Note 10) and assessment of trade receivables to Easter-European partners and allowance of impairment (Note 5). Estimation uncertainties and judgements made in relation to lease accounting (Note 11).

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 6,865 thousand euros as at 31 December 2019 and 8,717 thousand euros as at 31 December 2018). 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 249 thousand euros as at 31 December 2019 and 1,445 thousand euros as at 31 December 2018). In relation to the decision to close production units, the potential usage of raw materials decreased and at end of 2018 an allowance for raw materials was made in the amount of 309 thousand euros. Upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 0 euros as at 31 December 2019 and 107 thousand euros as at 31 December 2018).

Assessment of impairment of non-current assets (Note 9, 10 and 11)

At each balance sheet date, the appropriateness of depreciation rates, methods and the residual value is assessed. The main parts of the new operating plan are optimizing the brand portfolio, which leads to the uniting of Monton, Mosaic and Bastion under one brand, Monton, from spring 2020. In relation to that, in 2018, an impairment of Bastion trademark and assets related to it was recognised in amount of 574 thousand euros. In accordance with the new operating plan, Group's production units were closed during 2019, therefore an impairment of production assets was recognised in 2018 in the amount of 116 thousand euros.

The Group discontinued operations in the Group's production units in the end of 2019. Group's right-of-use assets include lease contracts for the production facilities for which the management is in active negotiation with the lessor to find a solution for early termination of the lease. Based on the initial offers and market conditions an impairment for right-of-use assets was recognised in the amount of 1,330 thousand euros at the end of 2019.

Assessment of lease accounting (Note 11)

The calculation of leased assets financial liabilities and assets depends on the lease period. Baltika Management has made the assumption that each leased asset is used for the period of it´s lease contract or less when there is the contractual possibility and agreed plan to stop using the leased premise earlier.

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.

Assessment of trade receivables to Eastern-European partners and allowance of impairment (Note 5)

As the complex economic and political situation in Ukraine and Russia caused a significant decrease in sales volumes and solvency of Baltika's franchise partners on these markets, AS Baltika decided to terminate the franchise agreements before the end of their period of validity, in 2019. Besides that, in the business customers` sales channel, Group favours the cooperation with partners whose purchase process is in accordance with Baltika Group's product development schedule. As a result, at the end of 2018, all receivables from Russian and Ukrainian franchise partners in the amount of 1,993 thousand euros were assessed as impaired.

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.

2019 Consolidated Annual Report (in thousands of euros)

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 2019 and 2018 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	**2019**	**2018**
USD (US dollar)	-5.21%	4.54%

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

Balance-sheet date rates	
USD (US dollar)	-1.89%

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 at 31 December 2019 had been up to 6% higher (lower), the impact on the net loss for the year would have been +/-57 thousand euros (2018: higher (lower) +/-78 thousand euros).

The assessment of foreign exchange rate sensitivity to the 2018 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 2019	**Impact 2018**
Trade and other payables	-57	-78
Total	**-57**	**-78**

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.

2019 Consolidated Annual Report (in thousands of euros)

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 424 thousand euros at 31 December 2019 and 1,165 thousand euros at 31 December 2018 were subject to a floating 6-month interest rate based on Euribor (Note 12). Non-current borrowings in the amount of 2,000 thousand euros at 31 December 2019 were subject to a fixed interest rate (31 December 2018: 4,445 thousand euros). The remaining non-current borrowings at 31 December 2019 in the amount of 12,396 thousand euros 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 2019, the 6-month Euribor decreased from -0.238% at the beginning of the year to the year end -0.323%. In the beginning of 2020, Euribor average has been -0.331%. Business analysts estimate that Euribor will not rise in 2020 enough to significantly affect the Group´s financial performance results.

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 35 thousand euros lower (2018: 38 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 3 thousand euros higher (2018: 4 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.

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 and Finland.

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

	31 Dec 2019	31 Dec 2018
A	175	299
B	19	9
Total (Note 4)	**194**	**308**

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

2019 Consolidated Annual Report (in thousands of euros)

Receivables

As at 31 December 2019 the maximum exposure to credit risk from trade receivables (Note 5) amounted to 240 thousand euros (31 December 2018: 397 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.

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 2019 was 2,010 thousand euros (31 December 2018: 1,666 thousand euros).

Financial liabilities by maturity as at 31 December 2019

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 12)[2]	4,219	208	1,595	781	2,584
Lease liabilities (Note 11)	17,779	2,833	4,495	11,815	19,143
Trade payables (Notes 13)	1,959	1,935	24	0	1,959
Other financial liabilities (Note 13)	23	23	0	0	23
Total	**23,980**	**4,999**	**6,114**	**12,596**	**23,709**

Financial liabilities by maturity as at 31 December 2018

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 12)[2]	4,153	213	2,952	1,158	4,323
Finance lease liabilities (Note 12)	78	12	26	48	86
Convertible bonds (Note 12, 15)	4,763	0	4,994	0	4,994
Trade payables (Note 13)	3,065	3,033	32	0	3,065
Other financial liabilities (Note 13)	22	22	0	0	22
Total	**12,081**	**3,280**	**8,004**	**1,206**	**12,490**

[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. Today's Group's business model is expensive and the share of fixed costs is high, which makes it difficult to respond to external factors and demand. Therefore, Group is implementing changes in business model, management structure, procedures and information systems. Group is changing the procurement base and has decided to close its production units and significantly reduce the operating costs.

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.

In 2020, the spread of coronavirus (COVID-19) and uncertainty of supply from China, one of the largest procurement countries, has become an important risk.

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

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

Capital management

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

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

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

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

2019 Consolidated Annual Report (in thousands of euros)

Net gearing ratio

	31 Dec 2019	31 Dec 2018
Total borrowings (Note 12)	19,998	8,994
Cash and cash equivalents (Note 4)	-264	-428
Net debt	19,734	8,566
Total equity	3,203	67
Net gearing ratio	**1,604%**	**12,785%**

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 2019 and 31 December 2018.

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.

2019 Consolidated Annual Report (in thousands of euros)

NOTE 4 Cash and cash equivalents

	31 Dec 2019	31 Dec 2018
Cash at hand	70	120
Cash at bank and overnight deposits	194	308
Total	**264**	**428**

All cash and cash equivalents are denominated in euros.

For additional information, see also Note 3.

NOTE 5 Trade and other receivables

	31 Dec 2019	31 Dec 2018
Trade receivables, net	240	397
Other prepaid expenses[1]	185	205
Tax prepayments and tax reclaims, thereof	121	234
Value added tax	121	234
Other current receivables[2]	75	30
Total	**621**	**866**

[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.

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

31 Dec 2019	Baltic region	Eastern European region	Other regions	Total
Not due	165	10	27	202
Up to 1 month past due	16	0	3	19
1-3 months past due	15	0	3	18
3-6 months past due	1	0	0	1
Over 6 months past due	0	0	0	0
Total	**197**	**10**	**33**	**240**

31 Dec 2018	Baltic region	Eastern European region	Other regions	Total
Not due	286	86	-9	363
Up to 1 month past due	4	0	13	17
1-3 months past due	8	0	7	15
3-6 months past due	0	0	0	0
Over 6 months past due	1	0	1	2
Total	**299**	**86**	**12**	**397**

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

2019 Consolidated Annual Report (in thousands of euros)

As at 31 December 2019, the Group has recorded an allowance for doubtful receivables of 14 thousand euros (31 December 2018: 2,353 thousand euros). The allowance is recorded for individual receivables that are estimated to be uncollectible. As at 31 December 2019, the allowance reserve is related to overdue balances from Baltic region (31 December 2018: related to overdue balances from Eastern European region). The Group expects that the rest of the unimpaired not due and overdue balances will be recovered. Trade receivables allowance expense in 2019 was 31 thousand euros (2018: 2,229 thousand euros) and was recognised in the statement of profit and loss on line “Impairment loss of trade receivables”.

All trade and other receivables are denominated in euros.

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

NOTE 6 Inventories

	31 Dec 2019	31 Dec 2018
Fabrics and accessories	369	1,754
Allowance for impairment of fabrics and accessories	-120	-309
Work-in-progress	0	107
Finished goods and goods purchased for resale	6,995	8,887
Allowance for impairment of finished goods and goods purchased for resale	-130	-170
Prepayments to suppliers	530	438
Total	**7,644**	**10,707**

In addition to the allowance for impairment of 130 thousand euros (2018: 170 thousand euros) to reduce finished goods and goods purchased for resale to net realizable value, the Group recognised 128 thousand euros during 2019 (2018: 142 thousand euros) as an expense for stock-take variances and inventory write offs. Allowance for impairment of fabrics and accessories in the amount of 120 thousand euros at 31 December 2019 and 309 thousand euros at 31 December 2018 is related to closing the production units in 2019. Impairment allowance and write-off costs were recognised in the statement of profit and loss on line “Cost of goods sold”.

For additional information, see also Note 2. Inventories (4,429 thousand euros) are pledged to cover loan liabilities (Note 12).

NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2019

	Total
Deferred income tax asset	
On PPE and other tax base differences[1]	-28
On tax loss carry-forwards	308
Total	**280**
Deferred income tax asset, net, thereof	**280**
Non-current portion	280
Deferred income tax income (-expense) (Note 24)	**-6**

Deferred income tax as at 31 December 2018

	Total
Deferred income tax asset	
On PPE and other tax base differences[1]	-45

2019 Consolidated Annual Report (in thousands of euros)

On tax loss carry-forwards	331
Total	**286**
Deferred income tax asset, net, thereof	**286**
Non-current portion	286
Deferred income tax expense (Note 24)	**97**

[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.

The Group recognised deferred income tax assets in the statement of financial position as at 31 December 2019 for subsidiary in Lithuania in respect of losses and other tax base differences that can be carried forward against future taxable income. As at 31 December 2018 the Group recognised all deferred income tax assets in the statement of financial position 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 10 years in Finland or for unlimited period in Lithuania.

NOTE 8 Other non-current assets

	31 Dec 2019	31 Dec 2018
Non-current portion of lease prepayments[1]	222	287
Total other non-current assets	**222**	**287**

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

In 2018, allowance of impairment for other long-term receivables were made in amount of 236 thousand euros.

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 2017					
Acquisition cost	**2,925**	**4,743**	**4,878**	**0**	**12,546**
Accumulated depreciation	-2,064	-4,372	-3,715	0	-10,151
Net book amount	**861**	**371**	**1,163**	**0**	**2,395**
Additions	256	60	259	0	**575**
Disposals	-10	0	-3	0	**-13**
Allowance of impairment of PPE[1]	0	-105	-3		**-108**
Depreciation charge	-360	-121	-490	0	**-971**
31 December 2018					
Acquisition cost	**2,988**	**4,688**	**4,855**	**0**	**12,531**

2019 Consolidated Annual Report (in thousands of euros)

Accumulated depreciation	-2,242	-4,483	-3,928	0	-10,653
Net book amount	**746**	**205**	**927**	**0**	**1,878**
Additions	380	37	277	9	**703**
Disposals	-20	-2	-29	0	**-51**
Assets classified as held for sale and other reclassifications	2	-82	0	-4	**-84**
Depreciation charge	-349	-10	-404	0	**-763**
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**

[1]In relation to closing the production units in 2019, Group recorded an impairment allowance for assets used in production in the amount of 116 thousand euros. Cost was recognised in the statement of profit and loss on line “Cost of goods sold” (Note 18).

Leased assets – 2018

As at 31 December 2018, machinery, equipment and other fixtures included the following amounts where the group was a lessee under finance leases:

	31.12.2019	31.12.2018
Leased equipment		
Acquisition cost	0	2,139
Accumulated depreciation	0	-1,893
Net book amount	**0**	**246**

From 2019 leased assets are presented as a separate line item in the balance sheet, see note 11. Refer to note 1 for details about the changes in accounting policy.

NOTE 10 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
31 December 2017					
Acquisition cost	**2,107**	**1,243**	**0**	**509**	**3,859**
Accumulated depreciation	-1,921	-425	0	0	-2,346
Net book amount	**186**	**818**	**0**	**509**	**1,513**
Additions	62	0	0	0	**62**
Disposals	-65	-517	0	-355	**-937**
Amortisation charge	-41	-54	0	0	**-95**
31 December 2018					
Acquisition cost	**2,037**	**1,298**	**0**	**154**	**3,489**
Accumulated depreciation	-1,895	-1,051	0	0	**-2,946**
Net book amount	**142**	**247**	**0**	**154**	**543**
Additions	0	0	46	0	**46**
Assets classified as held for sale	-7	0	0	0	**-7**

2019 Consolidated Annual Report (in thousands of euros)

Amortisation charge	-13	-32	0	0	**-45**
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**

Trademarks with a net book value of 214 thousand euros included acquired trademark Ivo Nikkolo (31 December 2018: 202 thousand euros), which remaining amortization period is 7 years. In relation to the new plan set in 2018, Mosaic and Bastion will be united under single brand Monton in spring 2020, an impairment for Bastion trademark and other intangible assets related to that brand was recognised in 2018 in the amount of 572 thousand euros. Impairment loss was recognised in distribution expenses (Note 19).

In accordance to the new operating plan set in 2018, Group's production units were closed during 2019 and impairment of intangible assets used in production was recognised in 2018 in the amount of 8 thousand euros. Impairment loss was recognised in statement of profit and loss on line "Cost of goods sold" (Note 18).

Impairment tests for goodwill

The carrying value of goodwill as at 31 December 2019 in the amount of 154 thousand euros (31 December 2018: 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 2019. 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 CGU	
Balance at 31 December	**2019**	**2018**
Carrying amount of goodwill	154	154
Growth in revenue[1]	1.0%	1.9%
Terminal growth rate[2]	1.7%	2.0%
Budgeted gross margin[3]	55.9%	56.4%
Discount rate[4]	10.2%	11.7%
Difference between recoverable and carrying amount	13,530	15,873

[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 2024.
[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 Baltika Latvija resulted in recoverable value exceeding the carrying amount of the cash generating unit and consequently no impairment losses have been recognised.

2019 Consolidated Annual Report (in thousands of euros)

If the average annual growth in sales efficiency (sales per m^2) were -4.2% the recoverable amount would have been equal to the carrying amount (31 December 2018: -4.9%). If the average annual gross profit margin was 43,5% the recoverable amount would have been equal to the carrying amount (31 December 2018: 41.9%).

NOTE 11 Leases

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

	Right-of-use assets	
	Offices	**Commercial premises**
1 January 2019*		
Initial recognition on IFRS 16 adoption (Note 1)	2,334	16,220
Net book amount	**2,334**	**16,220**
Additions	0	5,876
Termination of lease contracts	0	-910
Depreciation charge	-746	-5,404
Impairment	0	-1,330
Net book amount 31.12.2019	**1,588**	**14,452**

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases

[1]In relation to closing the production units in 2019, Group recorded an impairment allowance for right-of-use assets related to lease contracts for production units. The impairment allowance of 1,330 thousand euros was recognised in the statement of profit and loss on line “Other operating income (-expense)” (Note 22).

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

	31 Dec 2019	01 Jan 2019*
Lease liabilities		
Current	5,383	6,064
Non-current	12,396	12,490
Total lease liabilities	**17,779**	**18,554**

*In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as ‘finance leases’ under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group’s borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 1.
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.

2019 Consolidated Annual Report (in thousands of euros)

	2019 IFRS16
Interest expense (included in finance cost, Note 23)	837
Expense relating to short-term leases (included in operating expenses, Notes 18-20)	484
Depreciation charge for right-of use assets (included in operating expenses, Notes 18-20)	6,150
Expense relating to leases of low-value assets (included in operating expenses, Notes 18-20)	130
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses, Notes 18-20)	70
Total	**7,671**

The total cash outflow for leases in 2019 was 6,578 thousand euros (IFRS 16).
In 2018 lease expenses were recorded according to IAS 17 in the statement of profit and loss under operating expenses as rental expenses in the amount of 688 thousand euros (see Note 18).

At the end of 2019, Group made of impairment of loss of property, equipment in the amount of 1,330 thousand euros. Due to closure of the production units, Group no longer uses these assets for its own business activities, so the value of these assets was estimated in accordance with the future uses. Assets recognized under a lease contract for one production facility was written down to their market value at which it would be sold to third parties. Assets recognized under a lease for another production facility were written down to the extent of any sublease to third parties for the remaining lease term. The impairment of loss was estimated based on 6 month period that may be required to find a new subtenant or subtenants and the potential difference between the rent price and the actual market price for the the period left until the end on contract. If the estimated 6-month period were shorter or longer by 2 months, the need for an impairment of loss would be different by 110 thousand euros. Impairment of loss was recognized in the income statement under other operating expenses (Note 22).

NOTE 12 Borrowings

	31 Dec 2019	31 Dec 2018
Current borrowings		
Current portion of bank loans	698	697
Overdraft	990	2,334
Other current loans	43	35
Convertible bonds, share options (Note 15)	0	4,763
Total	**1,731**	**7,829**
Non-current borrowings		
Non-current bank loans	424	1,122
Other non-current loans	64	43
Total	**488**	**1,165**
Total borrowings	**2,219**	**8,994**

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 made bank loan repayments for 697 thousand euros (2018: 632 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 1,391 thousand euros (2018: 553 thousand euros), including interest expense from borrowings or convertible bonds to related party (Note 15) and interest expense from lease liabilities. Unused part of overdraft was 2,010 thousand euros as at 31 December 2019 (31 December 2018: 1,666 thousand euros).

2019 Consolidated Annual Report (in thousands of euros)

Changes in 2018

In December the repayment date of the overdraft agreement in the amount of 1,000 thousand euros was extended until July 2019.

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

As at 31 December 2018, liabilities related to K-bonds are reported as current in the amount of 4,763 thousand euros, including interests.

Changes in 2019

In order to finance working capital, a short-term loan agreement was signed with KJK Fund Sicav-SIF for 3,000 thousand euros. Loan with the repayment date in August 2019, was taken into use in two tranches. The first tranch 1,500 thousand euros was taken into use in March 2019 and the second tranch in April 2019. The loan carried 6% interest and was repaid with the funds received from the share issue.

In June the repayment date of the overdraft agreement (in the amount of 3,000 thousand euros) was extended until July 2020.

In May an agreement was signed between the main holder of K-Bonds (81%), the major shareholder of the company KJK Fund Sicav-SIF and AS Baltika to refinance the convertible bonds. In accordance with the signed agreement, the entire amount for the convertible bonds (including accrued interest) that became repayable in August 2019 was converted into a long-term loan with interest of 6% per annum and maturity date in May 2022. An amendment to the loan agreement was signed in December, according to which, as of December 2019, part of the loan (4,045 thousand euros) is non-interest bearing and the repayment date is not fixed. The repayment date will be agreed by the parties but will not be earlier than May 2022.

In July an annex under the existing facility agreement was signed, which extended the second overdraft´s (in the amount of 1,000 thousand euros) repayment date. According to the annex, starting from November 2019 the new amount of the overdraft will be 600 thousand euros which is repayable in December 2019.

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. As at 31 December 2019, the loan had not been drawn down.

Convertible bonds (K-bonds)

The parent entity issued 889 convertible bonds with 6% interest for 4,445 thousand euros on 16 August 2017. The bonds are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable after the end of the share subscription period. See more in Note 15. The convertible bonds are presented in the statement of financial position as follows:

	31 Dec 2019	31 Dec 2018
Nominal value of notes issued	0	4,445
Other equity securities - value of conversion rights	0	-163
	0	**4,282**
Interest expense*	0	481
Current liability	**0**	**4,763**

2019 Consolidated Annual Report (in thousands of euros)

* Interest expense is calculated by applying the effective interest rate of 8% to the liability component.

The initial fair value of the liability portion of the bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity and not subsequently revalued.

Interest carrying loans of the Group as at 31 December 2019

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	2,155	EURIBOR +3.7%
Total	**2,155**	

Interest carrying loans of the Group as at 31 December 2018

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor or 1-month Eonia)	4,231	EURIBOR +3.7% or EONIA +3.8%
K-Bonds (Note 25)*	4,445	6.00%
Total	**8,676**	

*K-bonds are shown in the nominal value of notes issued.

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

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

The Group's collaterals for bank borrowings

As at 31 December 2019 and 31 December 2018 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 2019 carrying amount of assets pledged was 9,974 thousand euros, including inventories in amount of 7,644 thousand euros, property, plant and equipment in amount of 1,683 thousand euros, intangible assets in amount of 383 thousand euros and cash on the bank accounts 264 thousand euros.

As at 31 December 2018 carrying amount of assets pledged was 13,215 thousand euros, including inventories in amount of 10,707 thousand euros, property, plant and equipment in amount of 1,878 thousand euros, intangible assets in amount of 202 thousand euros and cash on the bank accounts 428 thousand euros.

As at 31 December 2019 and 31 December 2018, AS Baltika did not comply with some of the terms and conditions of the agreement, the non-compliance is due to the impact of the implementation of IFRS 16.

For additional information, see also Note 3.

2019 Consolidated Annual Report (in thousands of euros)

Changes in liabilities arising from financing activities

	31.12.2018	Cash flows	Recognised on adoption of IFRS 16	New leases	Reclassified to equity	Other	31.12.2019
Current portion of long-term bank loans	**697**	-697	0	0	0	698	**698**
Bank overdrafts	**2,334**	-1,344	0	0	0	0	**990**
Convertible bonds	**4,763**	-845	0	0	0	-3,918	**0**
Other current loans	**35**	-35	0	0	0	43	**43**
Non-current bank loans	**1,122**	0	0	0	0	-698	**424**
Lease liabilities	**0**	-6,578	18,554	5,876	0	-73	**17,779**
Other non-current loans	**43**	0	0	0	-4,045	4,066	**64**
Total liabilities from financing activities	**8,994**	**-9,499**	**18,554**	**5,876**	**-4,045**	**118**	**19,998**

	31.12.2017	Cash flows	New leases	Other	31.12.2018
Current portion of long-term bank loans	**575**	-632	0	754	**697**
Bank overdrafts	**637**	1,697	0	0	**2,334**
Current finance lease liabilities	**97**	-100	0	38	**35**
Current portion of convertible bonds	**0**	0	0	4,763	**4,763**
Non-current bank loans	**875**	1,000	0	-753	**1,122**
Non-current finance lease liabilities	**78**	0	2	-37	**43**
Non-current portion of convertible bonds	**4,410**	0	0	-4,410	**0**
Total liabilities from financing activities	**6,672**	**1,965**	**2**	**355**	**8,994**

The Other column includes the effect of reclassification between current and non-current portion of bank loans, finance leases and convertible bonds 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; the conversion of convertible bonds to a long-term loan; and termination of lease contracts.

NOTE 13 Trade and other payables

	31 Dec 2019	31 Dec 2018
Current liabilities		
Trade payables	1,959	3,065
Tax liabilities, thereof	1,036	1,437
Personal income tax	123	148
Social security taxes and unemployment insurance premium	338	552
Value added tax	568	702
Other taxes	7	35
Payables to employees[1]	719	980
Customer prepayments	77	94
Other accrued expenses	23	5
Other current payables	48	22
Total	**3,862**	**5,603**

[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.

2019 Consolidated Annual Report (in thousands of euros)

Trade payables and other accrued expenses in denominated currency

	31 Dec 2019	31 Dec 2018
EUR (euro)	1,064	1,763
USD (US dollar)	943	1,308
Total	**2,007**	**3,071**

For additional information, see also Note 3.

NOTE 14 Provisions

Current provisions	31 Dec 2019	31 Dec 2018
Client bonus provision	250	331
Other provision	6	0
Total	**256**	**331**

Short description of the client bonus provision

The Group offers a customer loyalty programme "AndMore" to its retail (including web-shop) clients in the Baltic states and Finland.

"AndMore" motivates clients by allowing them to earn a future discount on purchases made today (bonus euros). Accumulated bonuses are valid for six months from the customer´s last purchase. The program's conditions are described in detail on the company´s website.

Used assumptions

In 2019, the Group reduced the client bonus provision by 81 thousand euros (2018: remained unchanged). The Group has used existing statistics that enable to characterize customers' usage of the bonus: earnings, usage and expiration.

The provision has been formed based on the earned, but not yet used bonuses and adjusted by the probability of expiration. Probability has been assessed based on existing customer behaviour statistics. See also Note 17.

NOTE 15 Equity

Share capital

	31 Dec 2019	31 Dec 2018
Share capital	5,408	4,079
Number of shares (pcs)	54,079,485	40,794,850
Nominal value of share (EUR)	0.10	0.10

As at 31 December 2019 and 31 December 2018 shares comprise only ordinary shares, which are listed on the Nasdaq Tallinn.

2019 Consolidated Annual Report (in thousands of euros)

Change in the number of shares

	Number of shares
Number of shares 31 December 2018	**40,794,850**
Number of shares 31 December 2019	**54,079,485**

As at 31 December 2019, 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 and as at 31 December 2018, under the Articles of Association, the company's minimum share capital was 4,000 thousand euros and the maximum share capital was 16,000 thousand euros. As at 31 December 2019 and 31 December 2018 all shares have been paid for.

Changes in share capital

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

On May 6, 2019, the number of shares were reduced according to the decision of the Annual General Meeting held on 12 April 2019, that approved the amendment of the Articles of Association, which stipulates that the nominal value of the share will be changed from 0.1 euros to 1 euro. Thereafter, all existing ordinary shares will be cancelled and exchanged to the new shares so that each 10 existing shares shall be exchanged to 1 new share. The amount of share capital remained unchanged.

On May 22, 2019 the decrease of the share capital of AS Baltika was registered in the Commercial Register and on 27 May 2019 the nominal value of AS Baltika share was changed at the Estonian Central Securities Depository based on the resolution adopted by the general meeting of shareholders held on April 12, 2019. Pursuant to the resolution of the general meeting of shareholders the share capital of AS Baltika was to be decreased by 3,671 thousand euros from 4,079 thousand euros to 408 thousand euros. The share capital was decreased by reducing the nominal value of the shares by 0.9 euro. As a result of the decrease of the share capital, the share capital of AS Baltika was 408 thousand euros that was divided into 4,079,485 shares with nominal value of 0.10 euro by share. With the use of reserves and decrease of the nominal value of the share retained earnings increased by 4,778 thousand euros and reserves decreased by 1,107 thousand euros.

AS Baltika annual general meeting held on April 12, 2019 approved the increase of share capital by issuing 50,000,000 new ordinary shares. The subscription period for shares started on July 15, 2019 and ended on August 7, 2019. The Management Board of AS Baltika approved the distribution of new shares to investors on August 9, 2019, which was changed by the Management Board decision on August 15, 2019. On August 13, 2019 Commercial Register registered the increase of share capital of AS Baltika. The new amount of the registered share capital of AS Baltika is 5,408 thousand euros, which is divided into 54,079,485 shares with nominal value of 0.1 euros

Convertible bonds and share options

	Issue date	Bond conversion period	Number of convertible bonds 31 Dec 2019	Number of convertible bonds 31 Dec 2018
K-Bond	16 August 2017	15 July 2019 - 18 August 2019	0	889

- K-bonds

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2019 Consolidated Annual Report (in thousands of euros)

On 8 May 2017, the Annual General Meeting of shareholders decided to issue convertible bonds with bondholder option in the total amount of 4.5 million euros. The decision was to issue 900 convertible bonds with the issuance price of 5,000 euros. Out of 900 bonds offered, 889 bonds in total amount of 4,445 thousand euros were subscribed. The convertible bonds carry an annual interest rate of 6% and the term is two years. Each bond gives its owner the right to subscribe for 15,625 Baltika's share at subscription price of 0.32 euros. No applications were received by 18 August 2019 to mark the shares; therefore, in accordance with the agreement signed in May between AS Baltika and KJK Fund Sicav-SIF, entire amount repayable to KJK Fund Sicav-SIF was converted into a long-term loan (see Note 12). All other proceeds were repaid to bond holders.

Bonds were partly issued to a related party (720 bonds in the amount of 3,600 thousand euros, Note 26) which were converted into a long-term loan.

Share option program

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

Reserves

	31 Dec 2019	31 Dec 2018
Statutory reserve	0	944
Other reserves	4,045*	163

Other reserves in the amount of 4,045 thousand euros at 31 December 2019 represents the non-interest bearing loan with no fixed repayment date from KJK Sicav-SIF (Note 12). Other reserves at 31 December 2018 cover the equity component of the issued K-bonds. The liability component was reflected in financial liabilities. See more in Note 12. The decrease in the required reserve is reflected in changes in share capital (Note 15).

*other reserves (as at 31.12.2019 4,045 thousand euros) amount differs by 2,000 thousand euros from the amount reported in Baltika's fourth quarter and 12 months 2019 report (2,045 thousand euros) disclosed on 28.02.2020 due to the fact that although the agreement between AS Baltika and KJK AS was made as of 31.12.2019, there was no formal confirmation of the amendment to the loan agreement with Fund Sicav-SIF and based on the principle of conservatism, the amount of 2,000 thousand euros was reported in the fourth quarter and 12 months report as a debt and not as other reserves in equity.

Shareholders as at 31 December 2019

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

Shareholders as at 31 December 2018

	Number of shares	Holding
1. ING Luxembourg S.A.	15,870,914	38.90%
2. Clearstream Banking Luxembourg S.A. clients	10,702,525	26.23%
3. Luksusjaht AS	900,237	2.21%
4. Svenska Handelsbanken clients	870,000	2.13%

2019 Consolidated Annual Report (in thousands of euros)

5. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	1,000,346	2.45%
Persons related to members of Management Board	228,583	0.56%
Entities connected to Supervisory Board not mentioned above	1,002,427	2.46%
6. Other shareholders	10,219,818	25.06%
Total	**40,794,850**	**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 and other sales channels (including wholesale, franchise, consignation and e-commerce). The retail segments are countries which have been aggregated to reportable segments by regions which share similar economic characteristics and meet other aggregation criteria provided in IFRS 8.

Description of segments and principal activities:

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

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

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

2019 Consolidated Annual Report (in thousands of euros)

Measures of income statement, segment assets and liabilities have been measured in accordance with accounting policies used in the preparation of the financial statements, except for accounting for lease that is presented in reports to Management Board according to IAS 17.

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

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

	Retail segment	All other segments[1]	Total
2019 and as at 31 Dec 2019			
Revenue (from external customers)	35,566	4,064	39,630
Segment profit[2]	3,468	824	4,292
Incl. depreciation and amortisation	-774	0	-774
Inventories of segments	4,051	0	4,051
2018 and as at 31 Dec 2018			
Revenue (from external customers)	38,416	6,275	44,691
Segment profit[2]	5,416	1,155	6,571
Incl. depreciation and amortisation	-865	-1	-866
Inventories of segments	4,273	0	4,273

[1]All other segments include sale of goods to wholesale, franchise and consignation clients, materials and sewing services and the sales from e-commerce.

[2]The segment profit is the segment operating profit, excluding other operating expenses and income.

Reconciliation of segment operating profit to consolidated operating profit

	2019	2018
Total segment profit	4,292	6,571
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-3,788	-6,614
Administrative and general expenses	-2,672	-2,375
Impact of the lease accounting principles	-901	0
Other operating income (expenses), net	-1,443	-2,245
Operating profit (loss)	**-4,512**	**-4,663**

[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 2019	31 Dec 2018
Total inventories of segments	4,051	4,273
Inventories in Parent company	3,593	6,434
Inventories on statement of financial position	**7,644**	**10,707**

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

	31 Dec 2019	31 Dec 2018
Retail	1,564	1,688
Assets in parent company	655	733
Total	**2,219**	**2,421**

2019 Consolidated Annual Report (in thousands of euros)

NOTE 17 Revenue and client bonus provision

	2019	2018
Sale of goods in retail channel	35,566	38,416
Sale of goods in wholesale and franchise channel	1,656	4,353
Sale of goods in e-commerce channel	2,067	1,707
Other sales	341	215
Total	**39,630**	**44,691**

Sales by geographical (client location) areas

	2019	2018
Estonia	18,875	20,054
Lithuania	10,081	10,299
Latvia	9,430	10,486
Russia	488	1,506
Finland	326	378
Serbia	119	130
Slovenia	104	25
Austria	79	422
Ukraine	33	758
Germany	24	220
Spain	1	79
Belarus	0	162
Other countries	70	172
Total	**39,630**	**44,691**

Client bonus provision

The Group accrues for bonuses earned through the customer loyalty programme. To calculate the reserve, the Group estimated the potential amount of bonuses that will be used in the next reporting period out of the total earned but not yet used bonuses at year end.

The provision as of 31 December 2019 decreased by 81 thousand euros (31 December 2018: remained unchanged). For further information about the assumptions used to form a provision, see Note 14.

NOTE 18 Cost of goods sold

	2019	2018
Materials and supplies	16,871	17,751
Payroll costs in production	2,919	3,525
Depreciation of assets used in production (Note 9-11)	659	71
Other production costs	298	380
Lease expense (Note 11) [3]	2	688
Changes in allowance of inventories (Note 6)[2]	-229	269
Impairment loss of assets used in production (Note 9, 10)[1]	0	471
Total	**20,520**	**23,155**

[1]In 2018, impairment loss of assets used in production includes the following impairment losses: of fixed assets in the amount of 116 thousand euros, intangible assets in the amount of 8 thousand euros and goodwill of production entity in the amount of 355 thousand euros.

[2]In 2018, changes in allowance of inventories includes allowance of fabric and accessories in the amount of 309 thousand euros that relates to the closing the production units in 2019.

2019 Consolidated Annual Report (in thousands of euros)

[3]Due to application of IFRS 16 from 1 January 2019, Group's lease expenses in production costs in the amount of 705 thousand euros have been reclassified as repayment of lease liabilities (Note 1 and Note 11).

NOTE 19 Distribution costs

	2019	2018
Payroll costs	8,990	9,494
Depreciation and amortisation (Note 9-11)	5,864	965
Lease expense (Note 11) [2]	1,536	6,845
Advertising expenses	1,104	1,274
Fuel, heating and electricity costs	436	464
Municipal services and security expenses	393	389
Information technology expenses	254	239
Fees for card payments	196	216
Travel expenses	92	156
Communication expenses	85	96
Consultation and management fees	62	126
Other sales expenses[3]	576	741
Impairment loss of assets (Note 10)[1]	0	574
Total	**19,588**	**21,579**

[1]In 2018, impairment loss of assets related to Bastion trademark was recognised in the amount of 574 thousand euros.

[2]Due to application of IFRS 16 from 1 January 2019, Group's lease expenses in distribution costs in the amount of 5,432 thousand euros have been reclassified as repayment of lease liabilities (Note 1 and Note 11).

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

NOTE 20 Administrative and general expenses

	2019	2018
Payroll costs	1,523	1,200
Depreciation and amortisation (Note 9-11)	434	30
Information technology expenses	198	209
Management, juridical-, auditor´s and other consulting fees	124	98
Bank fees	88	111
Fuel, heating and electricity expenses	66	64
Lease expense (Note 11) [1]	32	444
Other administrative expenses[2]	207	219
Total	**2,672**	**2,375**

[1]Due to application of IFRS 16 from 1 January 2019, Group's lease expenses in administrative and general expenses in the amount of 441 thousand euros have been reclassified as repayment of lease liabilities (Note 1 and Note 11).

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

2019 Consolidated Annual Report (in thousands of euros)

NOTE 21 Wages and salaries

	2019	2018
Payroll costs	10,559	10,793
Social security costs	2,873	3,426
Total	**13,432**	**14,219**

In 2019, the average number of employees in Baltika Group was 823 (2018: 1,004).

NOTE 22 Other operating income (-expense)

	2019	2018
Gain (loss) from sale, impairment of PPE and immaterial assets	152	-8
Other operating income	44	61
Foreign exchange gain (-loss)	-20	-22
Other operating expenses	-258	-47
Total	**-82**	**-16**

For additional information, see also Note 9 and 10.

NOTE 23 Finance costs

	2019	2018
Interest cost	-1,391	-553
Total	**-1,391**	**-553**

In 2019, interest expense includes accounted interest expense from lease liabilities (IFRS 16) in the amount of 837 thousand euros.
For additional information, see Note 11 Leases.

NOTE 24 Income tax

	2019	2018
Deferred income tax income (-expense) (Note 7)	-6	97
Total income tax income (-expense)	**-6**	**97**

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 2019

	Total
Loss before tax	-5 903
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	-6
Income tax expense	**0**
Deferred income tax income (-expense) (Note 7)	**-6**

2019 Consolidated Annual Report (in thousands of euros)

Income tax for the year ended at 31 December 2018

	Total
Loss before tax	-5,216
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	97
Income tax expense	**0**
Deferred income tax income (-expense) (Note 7)	**97**

NOTE 25 Earnings per share

Basic earnings per share

		2019	2018
Weighted average number of shares (thousand)	pcs	36,069	40,795
Net loss (thousands)	EUR	-5,909	-5,119
Basic earnings per share	**EUR**	**-0.16**	**-0.13**

Diluted earnings per share

Diluted earnings per share for the periods ended 31 December 2019 and 31 December 2018 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 2019 and 31 December 2018, the Group had no dilutive potential ordinary shares.

Instruments that could potentially dilute basic earnings per share (Note 15):

- K-bonds in 2018 and 2019,
- Share option program in 2018 and 2019.

The dilutive effect of the K-bonds was contingent on the share price. In 2019 and 2018, the Group assumption was that K-bonds would not be converted into ordinary shares based on the average share price on Nasdaq Tallinn Stock exchange.

For the share option program, a calculation was done to determine the number of shares that could have been acquired at market value (average price of the company´s share) based on share issue price. The number of shares, calculated as described above, was compared with the number of shares that would have been issued assuming the exercise of the share options. As the dilutive effect is contingent on the share price, the share option program did not have a dilutive effect in 2019 and 2018.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in 2019 was 0.23 euros (2018: 0.22 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.

2019 Consolidated Annual Report (in thousands of euros)

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	**2019**	**2018**
Services from entities under the control of the members of the Management Board and Supervisory Board	24	24
Total	**24**	**24**

In 2019 and 2018, AS Baltika bought mostly management services from the related parties.

Balances with related parties

	31 Dec 2019	**31 Dec 2018**
Borrowings and interests (Note 12,13, 15)	4,109	3,902
Total	**4,109**	**3,902**

All transactions in 2019 as well as in 2018 and balances with related parties as at 31 December 2019 and 31 December 2018 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

	2019	**2018**
Salaries of the members of the Management Board[1]	485	237
Remuneration of the members of the Supervisory Board	12	14
Total	**497**	**251**

[1]Salaries of the members of the Management Board 2019 expense includes a severance pay for Meelis Milder in the amount of 198 thousand euros.

As at 31 December 2019 and 31 December 2018, there were two Management Board Members and five Supervisory Board Members.

Changes in the Management Board in 2019

By the decision of the Supervisory Board made on March 14, 2019, starting from March 22, 2019 Mae Hansen will be the third member of the Management Board of AS Baltika. She will be responsible for implementing the 2019–2020 operational plan, which main parts are optimizing the brand portfolio and sales channels, digitalisation and changing the procurement base.

On June 26, 2019, Supervisory Board approved the resignation request of the CEO Meelis Milder. On the same day Meelis Milder`s powers as the Member of the Management Board ended. Meelis Milder will continue as an Advisor of the Supervisory Board of the company on the basis of one-year contract, which was signed on June 26, 2019. As a result of the changes, the Management Board of AS Baltika continues with two members, Mae

2019 Consolidated Annual Report (in thousands of euros)

Hansen as a CEO, who will be responsible for the sales, marketing and retail business processes and Maigi Pärnik-Pernik, who will be responsible for product development and support functions.

Changes in the Management Board in 2018

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

The termination benefits for the members of the Management Board are limited to 3-12 month's salary expense (no taxes included) in the total amount that is approximately 138 thousand euros (2018: 234 thousand euros) in case of premature termination. During 2019, the Group paid a severance pay of 198 thousand euros (2018: 0 thousand euros).

Changes in the Supervisory Board in 2019

On 12 April, Annual General Meeting decided to recall Valdo Kalm from the Supervisory Board.

On October 8, 2019 the Extraordinary General Meeting of Shareholders of AS Baltika elected Kristjan Kotkas as the fifth member of the Supervisory Board of the Company. Kristjan Kotkas has been working as a General Counsel at KJK Capital Oy since April 2019.

No compensations for terminating Supervisory Board status were paid in 2018 - 2019.

Convertible bonds (K-bonds) were partly issued to related parties (Note 15).

In 2018 share option program was issued among others to the Management Board members (Note 15).

NOTE 27 Subsidiaries

Subsidiary	Location	Activity	Holding as at 31 Dec 2019	Holding as at 31 Dec 2018
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman[1]	Estonia	Retail	100%	100%
SIA Baltika Latvija[2]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[2]	Lithuania	Retail	100%	100%
OY Baltinia AB	Finland	Retail	100%	100%
Baltika Sweden AB	Sweden	Dormant	100%	100%
OÜ Baltika Tailor	Estonia	In liquidation	100%	100%

In 2019 and 2018 there were no business combinations

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

NOTE 28 Events after the balance sheet date

On January 23rd, Supervisory Board approved the plan to reorganise group structure

Part of the company`s restructuring plan is to make the management of the Group more efficient by making the group structure more flat and lean. Supervisory Board decided to liquidate AS Baltika's subsidiary Baltika Sweden AB (dormant). In addition, it was decided that AS Baltika acquires 100% shareholding in OÜ Baltman, a subsidiary of OÜ Baltika Retail (holding company) for 0.15 million euros. OÜ Baltman manages the Baltic retail companies SIA Baltika Latvija and UAB Baltika Lietuva. Transactions were finalized in the first half of 2020. As the business operations will continue in the same volume, transaction does not have an impact on the consolidated profit, assets or liabilities of AS Baltika. AS Baltika confirms that the above-mentioned transaction does not constitute a transaction with a related party and the members of the Supervisory and Management Board of AS Baltika do not have any other personal interest in the transaction.

Changes in Management Board

According to the decision of the Supervisory Board held in 11 March, Flavio Perini will be the new CEO and Member of Management Board of AS Baltika since 1 April 2020. Mae Leyrer, Member of the Management Board of AS 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 by 22 May 2020 according to the decision made on 11 March by Supervisory Board. Until the end of the contracts, both Leyrer and Pärnik-Pernik, as members of the management board, continued to actively implement company's restructuring plan, while gradually transferring management to the new Management Board.

Claim against AS Baltika subsidiary OÜ Baltika Retail

AS Baltika´s subsidiary OÜ Baltika Retail received on 11 March 2020 an application for claim from OÜ Aquabene to acquire property located at Viru county, Kohtla-Järve city, Ahtme district, Õpetajate tee 5. OÜ Baltika Retail has sold the above referred property to the OÜ Aquabene under a contract of sale dated 4 March 2010. According to the contract of sale OÜ Baltika Retail has an obligation to repurchase the property. Following the sale of the property, Baltika Group leased the property for production activities. According to the application for claim the repurchase price is 1,167,172 euros. Pursuant to the application, OÜ Baltika Retail is obliged to buy back the property by 25 March 2020 at the latest. AS Baltika has issued a guarantee for fulfilment of the obligations of OÜ Baltika Retail.

By a ruling of 26 March 2020, the court decided to initiate reorganization proceedings of AS Baltika. The above-mentioned guarantee claim is included in the reorganization procedure and will be resolved within the framework of the reorganization procedure. In connection with the approval of the reorganization plan, Baltika Group incurred a redemption obligation of 70 thousand euros related to the Ahtme production unit. Following the approval of the restructuring plan, AS Baltika will reverse the write-down of the right to use the property in the amount of 600 thousand euros which was done at the end of 2019.

COVID-19 coronavirus pandemic impact

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. While this is still an evolving situation at the time of issuing these consolidated financial statements, it appears that the negative impact on global trade and on the Baltika Group may be more severe than originally expected. Certain currencies to which the Group is exposed have weakened, stock markets have declined, and commodity prices are significantly lower.

The coronavirus COVID-19 is having a significant negative impact on the financial results and liquidity of Baltika Group. COVID-19 has had the greatest impact so far on the activities of Baltika Group in Lithuania, where all stores were closed since March 16 due to orders given by the Lithuanian government. The Estonian government ordered all shopping malls in Estonia to be closed as at March 27. Latvian stores face restrictions limiting opening hours during the weekdays and are closed on weekends. On April 25, 2020, all retail stores of the Baltika Group located in Lithuania were reopened and on May 11, 2020, all retail stores located in Estonia were reopened by government decision. Baltika Group will dedicate an even greater amount of resources to the online shop www.andmorefashion.com, where customers can shop contactlessly.

At present, Baltika Group does not have major problems with the deliveries of goods, and there are few delays. The company is actively communicating with partners and different transportation options are considered for reducing potential delays.

Management considers this outbreak to be a non-adjusting post balance sheet event. As the situation develops on a daily basis, management currently considers it impracticable to make a detailed quantitative assessment of the potential impact of this outbreak on the Baltika Group, but management estimates that the coronavirus COVID-19 will have a negative impact on the company's financial results and liquidity. Management closely monitors the situation and seeks ways to minimize the impact on the Group.

Management of company`s short-term financial liabilities

The main focus of the Group in 2019 was the implementation of the 2019-2020 operational plan. The Group's non-recurring expenses in 2019 totaled 2,700 thousand euros, which were mainly related to discontinuing the operations in Estonian production units, an impairment loss of production units lease contracts; and optimization activities at headquarters and retail markets. Group's working capital is negative – as at 31 December 2019, current liabilities exceeded current assets by 2,675 thousand euros.

In order to finance working capital, in November 2019 a loan agreement was signed with KJK Fund, Sicav-SIF for 1,000 thousand euros. Loan with the repayment date in May 2022 was taken into use in February 2020. In addition, the Group had an unused overdraft limit of 2,010 thousand euros as at 31 December 2019. Please see Note 12 for more information.

Reorganisation

AS Baltika submitted an application 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. The court set a date to present the reorganisation plan to the court for approval by May 25, 2020. The initiation of reorganisation proceedings is related to the coronavirus COVID-19, which is having a significant negative impact on Baltika Group's financial results and liquidity. In addition, non-recurring expenses related to the restructuring (mainly regarding the cessation of production in Estonia) of Baltika Group have also had a negative impact on the financial results and liquidity of Baltika Group.

AS Baltika is in the opinion that in the current situation reorganisation of the company is the best way to protect the rights and interests of the shareholders, the employees, the creditors and the partners of AS Baltika. The company believes that as a result of the reorganisation proceedings and the measures taken in these proceedings, AS Baltika will be able to overcome its economic difficulties and restore its liquidity, improve profitability and ensure its sustainable management. This is also supported by the restructuring and efforts to improve business model which have already been made by Baltika Group, such as cessation of production operations in Estonia and thereby reducing production costs, and various other measures to reduce fixed costs.

If reorganisation of Baltika is successfully completed and the company`s financial difficulties overcome, it will be possible to continue with the activities of AS Baltika and retain several valuable jobs. In addition, the successful reorganisation of the company would help to ensure the durability of the Estonian design industry, as Baltika Group is the only Estonian fashion company that exports much of its production and offers professional work in the field of industrial fashion.

Following the commencement of the reorganisation proceedings, AS Baltika prepared a reorganisation plan. The reorganisation plan was prepared in consultation with AS Baltika's main partners. The reorganisation plan specified which reorganisation measures will be implemented, including the impact of the reorganisation on the creditors. The reorganisation plan was accepted by way of voting of the creditors. The final decision on whether to approve the plan was up to the court. The reorganisation only concerned AS Baltika, not any other Baltika Group entities.

On April 30, 2020 AS Baltika presented reorganization plan to creditor's for their approval.

Approval of the reorganization plan ensures that AS Baltika's creditors' claims are satisfied in the best possible way. The approval of the reorganization plan also ensures the preservation of Baltika's company together with many professional jobs.

On May 20, 2020 AS Baltika`s reorganization plan was accepted by the creditors. On the basis of the reorganization plan of AS Baltika, the creditors were in two groups and also the voting therefore took place in two groups. Of the Group I creditors, 66.67% of the creditors voted in favor, and the votes determined on the basis of the volume of claims accounted for 99.61% of all Group I votes. Of the Group II creditors, 82.76% of the creditors voted in favor, and the votes determined on the basis of the volume of claims accounted for 68.86% of all Group II votes. According to the Reorganization Act, a reorganization plan shall be accepted if at least half of all the creditors who hold at least two-thirds of all the votes (i.e volume of claims) vote in favor. If creditors are divided into groups, this requirement must be met in all groups.

AS Baltika submitted the reorganization plan accepted by the creditors to the court for approval on 25 May 2020. A creditor who voted against the plan has the right to submit an application for refusal to approve the reorganization plan. The court shall decide on the approval of the reorganization plan within 30 days after the receipt thereof, by assessing the fulfilment of different procedural requirements and other aspects deriving from the law. The ruling to approve the plan can be disputed by a creditor, the ruling by which the approval of the plan is refused, can be appealed by the company under reorganization.

As the court decided to approve the plan, AS Baltika started to enforce the measures described in the plan, including paying the debts that have been included in the plan according to the reorganization plan. The approval of the reorganization plan gives AS Baltika a chance to overcome the temporary economic difficulties and continue the operations of an important historic clothing textile company, also preserve the jobs of more than 500 people.

Court has approved AS Baltika reorganization plan on 19 June 2020. The ruling on the approval of the plan is enforced immediately. The creditors had the possibility to appeal against the ruling within 15 days of the receipt of the ruling and this right was exercised by one creditor.

AS Baltika will respond to the creditor's complaint on 16 July 2020 and will defend the approval of the plan in further court proceedings.

The appeal poses a risk that the reorganisation plan may be revoked (in which case it may be necessary to amend the plan, draw up a new plan, etc.), thus there is a material uncertainty that may cast significant doubt on the entity's ability to continue as going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. But the management is convinced, based on all the facts, that the Group's operations are ongoing and the report is prepared for going concern.

Summary of AS Baltika reorganization plan

According to the reorganization plan major restructuring measures are finishing the successfully started strategic turnaround with it's goal of cutting fixed costs, applying applicable COVID-19 measures, and engaging additional financing and restructuring creditor's claims.

Executing company's restructuring

Due to the fact that Baltika's business model needed modernization and high fixed costs were caused by the implementation of the business model, decision to make radical business model changes was made in 2019 (in addition to already earlier made decision regarding exiting loss making own production activity in Estonia). New model focuses on optimizing sales channels, simplifying business processes (mostly via digitalization) and sharply decreasing operating costs. If previously, fixed costs comprised 50% of total costs, then new objective was set to move fixed costs below 50% of the total cost base. Cost cutting leans on increasing the core processes efficiencies, increasing remote and flexible working possibilities and rearranging logistics. In summary, in 2020 fixed costs will decrease by ca 0.6 million and in 2021 by 1.6 million (-25%) compared with previous year.

In course of the already started sales channels optimization focus is set on Baltic retail and e-channel. By the end of 2021 the number of brands and branded channels shall be optimized together with the shop portfolio. Retail management model will be flattened, shop employees profiles modernized and e-shop upgraded. These measures will help, assuming the end of emergency states in the Baltics, to increase parent company's sales revenue by ca 8% annually after the end of the COVID-19 crises. E-shop sales are estimated to increase by 20% per annum over the coming years.

AS Baltika's objective is to upgrade current quite complex and stuck-in-the-past business processes to make them easier, faster and more efficient. In the coming years digitalization of key processes will take place, this includes 3D in product development leading to sample free process, artificial intelligence in stock management, digital solution in customer service, internationalization in design- and product development, as well as increasing the sales and marketing capabilities.

New business model adjustment started in April 2019 and already at the time of the reorganization proceedings kick-off positive impact from these changes was apparent to AS Baltika's cash flows and fixed costs. AS Baltika plans to finish the business model restructuring in course of the reorganization process to achieve most optimal fixed cost level and to create fertile soil for company's future growth and expansion after the reorganization (and if possible already in course of the reorganization).

Restructuring of creditor's claims

The reorganization plan covers claims that had become collectible at the time of the initiation of the reorganization proceedings (26 March2020). Also, claims arising from loan agreements in the amount of the entire loan agreement and claims arising from those guarantees issued by AS Baltika, in respect of which AS Baltika already knew before the commencement of the reorganization proceedings that the guarantee obligation must be fulfilled. In addition, the reorganization plan also covers the interest for the delay and interest claims that have become due at the time the reorganization proceedings were initiated.

According to the reorganization plan creditors are divided into two groups: Group I comprise of all claims secured by pledge and Group II comprises of all other i.e. unsecured claims. According to the Reorganization Act employment claims shall not be restructured in the reorganization plan. Claims that are not included in the reorganization plan shall be paid in course of normal business activities.

Principle of the claims secured by pledge, which are in Group I in the reorganization plan, shall not be decreased. Collateral claims that have fallen due prior to the commencement of the reorganization proceedings, including interest claims, are reduced to 0. Group I creditors' claims shall be fulfilled so, that claim shall be paid in equal monthly installments from July 2021 until December 31st 2023. In addition, Group I creditors will receive 2% interest rate on the unpaid claim balance. The amount of claims belonging to Group I is EUR 3,384 thousand.

The net operating income from the reduction of interest claims will be recognized in the AS Baltika 2020 financial statements.

Unsecured claims principal, which is in Group II, shall decreased by 85% to 15%. Decreased principle claim shall be paid out in annual installments within three years so that first installment is made year after the approval of the reorganization plan. Group II claims for default interest, which have become due at the time of the reorganization procedure is initiated shall be reduced to 0. Group II creditors shall not receive any interest. The amount of claims in Group II is EUR 8,757 thousand, which is reduced to 15%, i.e EUR 1,314 thousand. The net operating income from the write-down of claims will be recognized in the AS Baltika 2020 financial statements.

Applying for governmental COVID-19 aid measures

In addition to finalizing the already started business restructuring and restructuring the claims, AS Baltika has also applied additional measure to overcoming the temporary payment difficulties. These include applying to applicable state aid measures like for instance realization of tax benefits and payroll support from Unemployment Insurance Fund

Engaging additional funding

As a result of AS Baltika's reorganization plan's approval additional financing is possible. AS Baltika's majority shareholder KJK Fund has expressed its readiness to provide AS Baltika with an additional loan of up to 4 million euros under certain conditions after the approval of the reorganization plan.

Additionally raised financing shall be utilized to cover fixed costs, which AS Baltika is not able to cover due to the sharp sales revenue drop caused by emergency state. In addition, financing is needed for investments to finalize the business restructuring, that has already helped and will help even more in the future to decrease fixed costs. AS Baltika estimates, that upon ending of the emergency state sales shall not recover immediately to pre-crises levels and financing from loans will help to continue AS Baltika business activities until the normal market conditions are restored.

All prognoses in the reorganization plan are current estimations and they can change based on the market conditions and external factors. For the monitoring of the success of the reorganization proceedings and the reorganization plan, restructuring of the creditors' claims is the prevailing factor and that shall not change.

The management believes, based on all the facts, that the Group's operations are ongoing and the report is prepared for going concern.

NOTE 29 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.

2019 Consolidated Annual Report (in thousands of euros)

Statement of financial position of the parent company

	31 Dec 2019	31 Dec 2018
ASSETS		
Current assets		
Cash and cash equivalents	8	31
Trade and other receivables	3,498	5,107
Inventories	3,723	6,484
Total current assets	**7,229**	**11,622**
Non-current assets		
Investments in subsidiaries	1,025	1,025
Property, plant and equipment	119	152
Right-of-use assets	1,587	0
Intangible assets	382	387
Total non-current assets	**3,113**	**1,564**
TOTAL ASSETS	**10,342**	**13,186**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	1,722	7,806
Lease liabilities	741	0
Trade and other payables	3,910	6,974
Total current liabilities	**6,373**	**14,780**
Non-current liabilities		
Borrowings	488	1,156
Lease liabilities	893	0
Total non-current liabilities	**1,381**	**1,156**
TOTAL LIABILITIES	**7,754**	**15,936**
EQUITY		
Share capital at par value	5,408	4,079
Reserves	4,045	1,107
Retained losses	-3,158	-4,540
Net profit for the period	-3,707	-3,396
TOTAL EQUITY	**2,588**	**-2,750**
TOTAL LIABILITIES AND EQUITY	**10,342**	**13,186**

2019 Consolidated Annual Report (in thousands of euros)

Statement of comprehensive income of the parent company

	2019	2018
Revenue	24,082	31,255
Cost of goods sold	-19,662	-23,221
Gross profit	**4,420**	**8,034**
Distribution costs	-4,520	-5,919
Administrative and general expenses	-2,564	-2,294
Impairment loss of trade receivables	-31	-2,229
Other operating income (-expense)	-156	-45
Operating loss	**-2,851**	**-2,453**
Impairment and reversal of investments and receivables from subsidiaries	-250	-299
Interest expenses, net	-606	-644
Net loss for the period	**-3,707**	**-3,396**
Total comprehensive income for the period	**-3,707**	**-3,396**

2019 Consolidated Annual Report (in thousands of euros)

Cash flow statement of the parent company

	2019	2018
Cash flows from operating activities		
Operating loss	-2,851	-2,752
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	833	702
Other non-monetary expenses	-433	2,869
Changes in trade and other receivables	1,723	-4,245
Changes in trade and other payables	-3,083	2,380
Changes in inventories	2,990	-120
Interest paid	-456	-291
Net cash generated from (used in) operating activities	**-1,277**	**-1,457**
Cash flows from investing activities		
Acquisition of non-current assets	-51	-77
Proceeds from disposal of PPE	2	0
Net cash used in investing activities	**-49**	**-77**
Cash flows from financing activities		
Proceeds from borrowings	3,000	1,000
Repayments of borrowings	-3,708	-1,299
Change in overdraft balance	-1,344	1,697
Repayments of finance lease, principle (2018- repayments of finance lease)	-699	-10
Repayments of lease liabilities, interest	-101	0
Repayment of convertible notes	-845	0
Proceeds from share issues	5,000	0
Net cash generated (used in) from financing activities	**1,303**	**1,388**
Total cash flows	**-23**	**-146**
Cash and cash equivalents at the beginning of the period	**31**	**177**
Cash and cash equivalents at the end of the period	**8**	**31**
Net change in cash and cash equivalents	**-23**	**-146**

2019 Consolidated Annual Report (in thousands of euros)

Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2017	**8,159**	**496**	**1,345**	**-9,354**	**646**
Total comprehensive income	0	0	0	-3,396	-3,396
Value of conversion feature on convertible notes	-4,080	-496	-238	4,814	0
Balance at 31 December 2018	**4,079**	**0**	**1,107**	**-7,936**	**-2,750**
Book value of holdings under control or significant influence					-1,025
Value of holdings under control or significant influence, calculated under equity method					1,092
Adjusted unconsolidated equity at 31 December 2018					**67**
Total comprehensive income	0	0	0	-3,707	-3,707
Reduction of the nominal value of the share	-3,671	0	-1,107	4,778	0
Issue of ordinary shares	5,000	0	0	0	5,000
Other reserve	0	0	4,045	0	4,045
Balance at 31 December 2019	**5,408**	**0**	**4,045**	**-6,865**	**2,588**
Book value of holdings under control or significant influence					-1,025
Value of holdings under control or significant influence, calculated under equity method					4,228
Adjusted unconsolidated equity at 31 December 2019					**3,203**

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.

Independent auditor's report

To the Shareholders of AS 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 AS Baltika (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated financial performance and its 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 15 July 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

During 2019, we have not provided any non-audit services to the Group.

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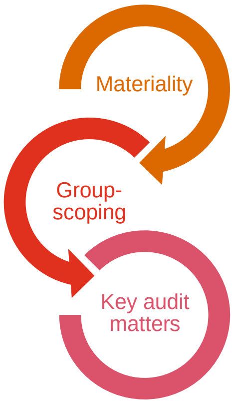
Material uncertainty related to going concern

We draw attention to note 28 to the financial statements, which discusses the post-balance sheet events affecting the financial position of the Group and Group's ability to continue as a going concern. The Group's working capital is negative – current liabilities exceed current assets by 2,675 thousand euros as of 31 December 2019 and the Group is negatively affected by Covid-19 impact in 2020. As a result, the Company went through reorganisation proceedings in March - June 2020 and the court approved the reorganisation plan on 19 June 2020. The details of the reorganisation plan are disclosed in note 28. The Group's cash flow forecast for the next 12 months is based on the fact that reorganisation plan is finally approved and executed. On 6 July 2020 a creditor has issued a claim to challenge the court's approval of the reorganisation plan. The response to the claim has to be filed by the Company by 16 July 2020 and therefore the final outcome of the reorganisation proceedings, at the date of this report, is uncertain.

The ultimate approval of the reorganisation plan and its successful execution together with other matters as set forth in note 28, indicate the existence of a material uncertainty 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 0,4 million, which represents approximately 0,9% of 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

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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.

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 consolidated financial statements as a whole.

Overall Group audit materiality	EUR 0,4 million
How we determined it	Approximately 0.9% of revenue
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 lenders.

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 2019, the Group recognised net revenue of EUR 39.6 million. Revenue consists mainly of retail revenue generated in shops in the amount of EUR 35.6 million and wholesale revenue from wholesale and franchise partners and e-commerce in the amount of EUR 4.0 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.	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 obtained confirmations from largest customers for both annual revenue and year-end receivable balance. • We agreed a sample of retail revenue recorded in the general ledger to incoming cash by retail store, day and market, validating the amounts received to bank receipts and card payments.

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However, some judgment and management estimates are needed for a proper accounting in certain areas, including:

- client loyalty programme; and
- delivery terms and returns relating to wholesale and franchise partners.

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

- We tested whether all conditions to recognise revenue were met for a sample of wholesale and franchise transactions by examining sales agreements for any specific conditions, such as returns, and by examining returns and credit invoices to assess whether such transactions were recorded in a proper period.
- In order to assess the impact of the client loyalty programme to revenue recognition, we reviewed the accuracy of the calculations and tested the validity of respective supporting information, including assumptions.
- 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 2019, the total carrying amount of inventories was EUR 7.6 million, net of EUR 0.3 million allowance for impairment.

The Group manufactures and 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.

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 previous 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 surplus stock 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 physical inventory counts to validate procedures related to inspection of condition of inventory items.

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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.

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.

Other information

The Management Board is responsible for the other information. The other information comprises the Baltika Group in brief, the Mission and key strategic strengths, the Key figures and ratios, the Management Board's confirmation of management report, the Management report, the Social responsibility report, the Corporate Governance report, the Profit allocation recommendation, the Declaration of the management board and supervisory board, AS Baltika Supervisory board, AS Baltika management board, Revenues (not consolidated by EMTAK (the Estonian classification of economic activities) (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 and we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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, related safeguards.

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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

Appointment and period of our audit engagement

We were first appointed as auditors of AS 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 AS 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 AS Baltika can be extended for up to the financial year ending 31 December 2023.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Eva Jansen-Diener
Auditor's certificate no.501

15 July 2020
Tallinn, Estonia

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PROFIT ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net loss for the year ended at 31 December 2019 for 5,909 thousand euros to allocate as follows:

Retained earnings	-5,909
Total	**-5,909**

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 2019.

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.

Flavio Perini
Member of the Management Board, CEO
15 July 2020

Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Board
15 July 2020

Tiina Mõis
Member of the Supervisory Board
15 July 2020

Reet Saks
Member of the Supervisory Board
15 July 2020

Lauri Kustaa Äimä
Member of the Supervisory Board
15 July 2020

Kristjan Kotkas
Member of the Supervisory Board
15 July 2020

AS BALTIKA SUPERVISORY BOARD

JAAKKO SAKARI MIKAEL SALMELIN
Chairman of the Supervisory Board since 23 May 2012, Member of the Supervisory Board since 21.06.2010
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board, KJK Capital Oy,
Member of the Management Board, KJK Management SA,
Member of the Management Board of Amiraali Invest Oy,
Member of the Management Board of UAB D Investiciju Valdymas.
Baltika shares held on 31 December 2019: 0

TIINA MÕIS
Member of the Supervisory Board since 03.05.2006
Chairman of the Management Board of AS Genteel
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Board of AS LHV Pank and AS LHV Group,
Member of the Supervisory Board of Rocca al Mare Kool.
Baltika shares held on 31 December 2019: 1,297,641 shares (on AS Genteel account)[1]

REET SAKS
Member of the Supervisory Board since 25.03.1997
Legal Advisor at Farmi Piimatööstus
Degree in Law, University of Tartu
Other assignments
Member of the Management board of Non-profit organization AIPPI Estonian workgroup
Baltika shares held on 31 December 2019: 0

LAURI KUSTAA ÄIMÄ

Member of the Supervisory Board since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Other assignments:

Sole board member of Kaima Capital Eesti OÜ
CEO, member of the Board of KJK Capital Oy
Chairman of the Board of KJK Fund II, SICAV-SIF
Member of the Management Board of KJK Fund III Management S.a.r.l
Member of the Management Board of KJK Investments S.a.r.l
Member of the Supervisory Board of AS Toode
Member of the Management Board of Amber Trust Management SA
Member of the Management Board of Amber Trust II Management SA
Director of Amber Trust SCA
Director of Amber Trust II SCA
Member of the Board of Aurejärvi Varainhoito Oy
Member of the Board of KJK Investicije 2 d.o.o
Member of the Board of KJK Investicije 4 d.o.o
Member of the Board of KJK Investicije 5 d.o.o
Member of the Board of KJK Investicije 7 d.o.o
Member of the Board of KJK Investicije 8 d.o.o
Member of the Supervisory Board of Managetrade OÜ
Chairman of the Supervisory Board of JSC Rigas Dzirnavnieks
Member of the Board of UAB Malsena Plius
Member of the Board of AB Baltic Mill
Member of the Board of Bostads AB Blåklinten Oy
Member of the Supervisory Board of Saaremere Kala AS
Member of the Supervisory Board of Eurohold Bulgaria AD
Member of the Board of UAB D Investiciju Valdymas
Chairman of the Board of KJK Management SA
Chairman of the Supervisory Board of AS PR Foods
Member of the Supervisory Board of Elan d.o.o.o
Member of the Board of Baltik Vairas
Chairman of the Supervisory Board of Tahe Outdoors OÜ
Member of the Board of KJK Sports S.a.r.l.

Baltika shares held on 31 Dec 2019: 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
Other assignments:
Member of the Management Board of KJK III Participations S.a.r.l,
Member of the Management Board of Rondebosch OÜ,
Member of the Management Board of Protea Invest OÜ,
President of Non-profit organization Tallinn Kalev RFC,
Member of the Management Board of Non-profit organization Estonian Rugby Union.
Baltika shares held on 31 December 2019: 0

[1]Members of the Supervisory Board of AS Baltika own shares through the companies AS Genteel and Kaima Capital Eesti OÜ (see Corporate governance report section "Supervisory Board").

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)
Baltika shares held on 31 December 2019: 0

MAE LEYRER
Member of the Management Board until May 22, 2020
Member of the Board since 2019, in the Group since 2019
Global Executive MBA, University of Vienna (Austria) and Carlson School of Management (USA)
Baltika shares held on 31 December 2019: 0

MAIGI PÄRNIK-PERNIK
Member of the Management Board until May 22, 2020
Member of the Board since 2011, in the Group since 2011
Degree in Economics, Tallinn University of Technology,
Master of Business Administration, Concordia International University
Master of Science in Engineering, Tallinn University of Technology
Baltika shares 31 December 2019: 0

2019 Consolidated Annual Report (in thousands of euros)

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

Code	Definition	2019	2018
46421	Wholesale of clothing and footwear	21,704	29,167
47911	Retail sale via mail order houses or via Internet	2,067	1,707
46191	Wholesale of other products	106	94
46151	Brokerage of furniture, other products	160	253
14131	Other sewing services	29	26
68201	Other rental revenue	16	8
Total		**24,082**	**31,255**