AS BALTIKA

Consolidated interim report for the second quarter and 6 months of 2021

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Valukoja 10, Tallinn 11415, Estonia
Phone	+372 630 2700
E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Design, development and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Financial year	1 January 2021 – 31 December 2021
Reporting period	1 January 2021 – 30 June 2021

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Baltika Group Consolidated interim report for the II quarter and 6 months of 2021 (in thousand euros, unaudited)

BRIEF DESCRIPTION OF BALTIKA GROUP

Baltika Group, with the parent company AS Baltika, is an international fashion retailer. Baltika develops and operates fashion brands: Monton, Baltman and Ivo Nikkolo. Baltika employs a business model, which means that it controls various stages of the fashion process: design, supply chain management, distribution/logistics, wholesale and retail.

The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange that is part of the NASDAQ exchange group.

As at 30st June 2021 the Group employed 214 people (31 December 2020: 277).

The parent company is located and has been registered at Valukoja 10 in Tallinn, Estonia.

The Group consists of the following companies:

Subsidiary	Location	Activity	Holding as at 30 June 2021	Holding as at 30 March 2021
OÜ Baltika Retail	Estonia	In liquidation	100%	100%
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvija[1]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[1]	Lithuania	Retail	100%	100%

[1]Interest through a subsidiary.

MANAGEMENT REPORT

BALTIKA'S UNAUDITED FINANCIAL RESULTS, SECOND QUARTER AND 6 MONTHS OF 2021

Baltika Group ended the second quarter with a net profit of 37 thousand euros. The profit for the same period last year was 3,965 thousand euros but this included one-off reorganisation impact in the amount 5 905 thousand euros. Therefore the result signifies an improvement of 1,977 thousand euros compared to last year regular business result.

The Group's sales revenue for the second quarter was 3,207 thousand euros, decreasing by 13% compared to the same period last year. The main reasons of the decrease in retail sales were represented by the closures of 33 unprofitable stores all over Baltics as well as by the negative impact of the second wave of COVID-19 with all restrictions in place, particularly and mostly during April and May.

Second wave of COVID-19 restrictions were eased in the second quarter as Estonian stores were fully open from 3rd May, Lithuanian from 29th May and Latvian stores from 3rd June 2021. E-com sales revenue in second quarter 2021 decreased by 41% for approximately 270 thousand euro, mostly driven by the logical shift towards off-line stores due to the easing of all restrictions during 2nd half of second quarter. However, results on year to date are still showing a very strong performance +16% in sales and +32% in gross profit, despite the Company strategic decision of discontinuing with Monton and Baltman brands.

The gross profit for the quarter was 1,656 thousand euros, decreasing by 166 thousand euros compared to the same period of the previous year (Q2 2020: 1,822 thousand euros) in line with the sales decrease. The company's gross profit margin was 51.6% in the second quarter, which is 2.4 percentage points higher than the margin of the second quarter of the previous year (Q2 2020: 49.2%). The increase in gross profit margin is a consequence of the Group strategical decision to be more focused on full price sales with a full review of the whole product offer (clothes and accessories) to be more aligned with new customer needs.

The Group's distribution and administrative expenses in the second quarter were 2,036 thousand euros, decreasing by 42% i.e., 1,489 thousand euros compared to the same period last year. Over 60% of the decrease in expense relates to reduction in retail business. The head-office distribution and administrative expense decreased a further 310 thousand euros compared to same period last year as main changes in head-office took place after second quarter 2020.

In the first half of the year, the Group's sales revenue decreased by 46% compared to the same period last year and amounted to 5,339 thousand euros. Retail sales decreased by 54%, while sales revenue of the e-store increased by 16%. The Group ended the half-year with a net loss of 1,618 thousand euros. The comparable result of the previous year was a net profit of 1,491 thousand euros, including the one off positive impact of the reorganisation process of 5,905 thousand euro. Group half year performance was a loss mostly driven and caused by all COVID-19 restrictions in all Baltic countries already in place from 1st of January 2021 and also due to the fact that first quarter has always been relatively weak in retail business. Despite all difficulties due to COVID-19 restrictions which have heavily affected the whole Baltic retail business during second quarter, the Group has shown a very strong and resilient new business model capable to deliver a profit already by the end of second quarter.

Second quarter 2021 marks the end of Baltika Group´s operational turnaround and hopefully also of COVID-19 restrictions. Balika Group focus during second quarter 2021 was the one to optimise even further the whole store network with some important unprofitable store closures across the Baltics and to keep under strict control all operating expenses. Meanwhile new contract for professional warehouse service provider correlating to volumes has been signed during April 2021 and this will give the chance to Baltika Group to get a more flexible and effective logistic cost structure in line with Group's buying volumes.

The quarter was finished with a profit and in strong financial position to go forward to next period when all the focus will be mostly on new Ivo Nikkolo brand launch.

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

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

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

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

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

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

REVENUE

Baltika's second quarter revenue was 3,207 thousand euros, which was 13% lower compared to the same period last year. Retail sales decreased by 9%, as the second wave of COVID-19 has negatively affected the business across all Baltic countries in April and May.
The restrictions of Lithuanian stores were partially eased since 19th of April (store closures during weekends) and fully abolished on 29th of May, except for one shop which had a separate entrance. Estonian stores were fully closed until 3rd of May and Latvian stores were fully closed until 3rd of June. E-com sales meanwhile decreased 41% during Q2 due to an important shift toward off-line sales happened during May and particularly in June due to all store re-openings.

Sales revenue by channel

EUR thousand	2 Q 2021	2 Q 2020	+/-	6M 2021	6M 2020	+/-
Retail	2,730	3,006	-9%	3,898	8,391	-54%
E-com sales	391	661	-41%	1,347	1,165	16%
Other	87	40	117%	94	288	-67%
Total	**3,208**	**3,706**	**-13%**	**5,339**	**9,844**	**-46%**

Stores and sales area

As of 30th of June 2021, the Group had 43 stores. During the second quarter, the number of stores decreased by 5. Baltika Group closed in Estonia 2 and in Latvia 3 stores. Group average selling area decreased by 32% compared to second quarter 2020.

Stores by market

	30 June 2021	30 June 2020	Average area change*
Estonia	21	31	2%
Lithuania	12	27	-45%
Latvia	10	18	-61%
Finland	0	0	0%
Total stores	**43**	**76**	
Total sales area, sqm	**11,442**	**15,005**	**-32%**

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

Group retail sales efficiency in second quarter 2021 has seen a very strong improvement of +33% compared to second quarter 2020.

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

	2 Q 2021	2 Q 2020	+/-	6M 2021	6M 2020	+/-
Estonia	149	128	13%	112	129	-13%
Lithuania	111	74	51%	112	96	16%
Latvia	108	96	13%	108	118	-8%
Finland	0	50	-100%	0	53	0%
Total	**132**	**99**	**33%**	**112**	**115**	**-2%**

Retail

Retail sales for the second quarter were 2,730 thousand euros, decreasing by 9% compared to the same period last year with 33 less stores.

Retail sales by market

EUR thousand	2 Q 2021	2 Q 2020	+/-	Share	6M 2021	6M 2020	+/-	Share
Estonia	1,711	1,439	19%	63%	2,831	3,989	-29%	48%
Lithuania	714	865	-17%	26%	765	2,406	-68%	29%
Latvia	305	694	-56%	11%	308	1,958	-84%	23%
Finland	0	8	-100%	0%	0	38	-100%	0%
Total	**2,730**	**3,006**	**-9%**	**100%**	**3,898**	**8,391**	**-54%**	**100%**

Brands

Monton's sales revenue for the second quarter was 1,155 thousand euros, decreasing by 50% compared to the same period last year in line with general decrease in sales.

In the second quarter was the largest brand Ivo Nikkolo with 45%. As the focus was on increasing sales of Ivo Nikkolo collection, then the overall sales increased by 355% compared to same period last year.

Baltman’s second quarter sales fell by 4%. Mosaic and Bastion’s sales disappearance relates to the decision to discontinue these brands, which is a part of Baltika Group’s ongoing restructuring plan.

Retail revenue by brand

EUR thousand	2 Q 2021	2 Q 2020	+/-	Share	6M 2021	6M 2020	+/-	Share
Monton	1,155	2,330	-50%	42%	1,954	5,493	-64%	50%
Mosaic	10	45	-78%	0%	17	941	-98%	0%
Baltman	349	364	-4%	13%	517	1,041	-50%	13%
Ivo Nikkolo	1,216	267	355%	45%	1,410	910	55%	36%
Bastion	0	0	0%	0%	0	6	-100%	0%
Total	**2,730**	**3,006**	**-9%**	**100%**	**3,898**	**8,391**	**-54%**	**100%**

Sales in e-com

The sales revenue of Baltika Group’s e-store in the second quarter decreased by 41% compared to the same period last year and was 391 thousand euros. It was a largely expected outcome due to the fact Baltika Group E-Com business model has radically changed with a major focus on full price e-sales, following very consistently Group’s off-line strategy.

Very promising performance of new Ivo Nikkolo brand sales which have improved by 7% followed by a strong improvement of gross profit by 52% compared to the same period last year.

New Ivo Nikkolo brand made 53% of e-store sales revenue in second quarter.

OPERATING EXPENSES AND NET PROFIT

The gross profit for the quarter was 1,656 thousand euros, decreasing by 166 thousand euros compared to the same period of the previous year (Q2 2020: 1,822 thousand euros) in line with the sales decrease. The company's gross profit margin was 51.6% in the second quarter, which is 2.4 percentage points higher than the margin of the second quarter of the previous year (Q2 2020: 49.2%). The increase in gross profit margin is due to focus on fully priced items sales.

The Group's distribution and administrative expenses in the second quarter were 2,036 thousand euros, decreasing by 42% i.e., 1,489 thousand euros compared to the same period last year. Over 60% of the decrease in expense relates to reduction in retail costs, majority due to closure of Baltika brands stores.

Net financial expenses were 34 thousand euros in the quarter, which is 140 thousand euros less than in the same period last year. The decrease in financial expenses is related to the restructuring of interest-bearing debt obligations of creditors in accordance with the reorganization plan and agreement to restructure the related party loans as subordinated loans.

The net profit for the quarter was 37 thousand euros, the result for the comparable period was a net profit of 3,965 thousand euros. Last year profit included one-off positive reorganisation impact in the amount 5 905 thousand euros which signifies a very strong improvement of 1,977 thousand euros compared to last year regular business result.

FINANCIAL POSITION

As at 30th of June 2021, Baltika Group's cash and cash equivalents amounted to 772 thousand euros (1,427 thousand euros as at 31st of December 2020). The decrease in cash and cash-equivalents relates to financing operating expenses.

At the end of the quarter, the Group's inventories totalled 3,126 thousand euros, decreasing by 341 thousand euros, i.e., 10% compared to the end of the previous year. The amount remained relatively stable as there was limited buying done and hence the stock level remains optimal despite the long, unexpected closure of offline stores.

Fixed assets were acquired in the second quarter for 61 thousand euros and depreciation was 171 thousand euros. The residual value of fixed assets has decreased by 124 thousand euros compared to the end of the previous year and was 1,558 thousand euros.

Right of use assets as at 30th of June 2021 amounted to 6,785 thousand euros. The assets have decreased by 2,414 thousand euros compared to year end, whereby 1,791 thousand euros relates to depreciation, 744 thousand euros is finished contracts and new contracts in the amount of 121 thousand euros.

As at 30th of June 2021, the total debt was 10,912 thousand euros, which together with the change in overdraft means a similar level compared to the end of the previous year (31.12.2020: 10,341 thousand euros.

As at 30th of June 2021 the Group equity was 1,094 thousand euros due to the loss in the first quarter. With this Baltika Group is not compliant with Commercial Code requirement of equity being 50% from share capital. As the first quarter is always difficult in retail, Baltika Management Board will continue to monitor the situation in these unpredictable times and if needed decide in time for action when the situation is clearer and does not improve.

Cash flow from operating activities in the second quarter was -29 thousand euros (Q2 2020: -884 thousand euros) as result was a profit and therefore the result before depreciation shows even a stronger performance. In the second quarter, 16 thousand euros were put into investment activities. Financing activities shows 451 thousand euros expense (stores rent financed by use of overdraft). The Group's total cash flow for the second quarter was 417 thousand euros which despite COVID-19 negative impacts on the business , shows again a very strong improvement of more than 350 thousand euro compared to same period last year (Q2 2020: 49 thousand euros).

As at 30th of June 2021, Group's net debt (interest-bearing debt less cash and cash equivalents) was 10,912 thousand euros, which is 571 thousand euros more than at the end of the previous year. The increase in net debt is mainly related to use of overdraft due to first quarter loss. The net debt to equity ratio as of 30th of June 2020 was 927% (31st of December 2020: 329%). The Group's liquidity ratio has gone down over the quarter (30th of June 2021 and 31 December 2020) from 0.81 to 0.72 due to a decrease in current assets.

PEOPLE

As at 30th of June 2021 Baltika Group employed 214 people, which is 63 people less than at 31st of December 2020 (277), there of 173 (31.12.2020: 225) in the retail system, and 41 (31.12.2020: 52) at the head office and logistics centre.

Baltika Group employees' remuneration expense in 6 months of the year amounted to 1,546 thousand euros (Q2 of 2020: 2,869 thousand euros).

KEY FIGURES OF THE GROUP (II QUARTER OF 2021)

	Q2 2021	Q2 2020	Q2 2019	Q2 2018	Q2 2017	Q2 2016
Revenue (EUR thousand)	3 208	3,707	10,463	11,041	11,732	11,818
Retail sales (EUR thousand)	2 730	3,006	9,461	9,716	9,891	10,290
Share of retail sales in revenue	85,1%	81.1%	90.4%	88.0%	84.3%	87.1%
Gross margin	51,6%	49.2%	54.9%	54.6%	51.3%	52.3%
EBITDA (EUR thousand)	1 021	5,812	1,503	527	645	790
Net profit (EUR thousand)	37	3,965	-616	127	199	346
EBITDA margin	31,8%	156.8%	14.4%	4.8%	5.5%	6.7%
Operating margin	2,2%	111.7%	-2.2%	2.4%	2.8%	3.9%
EBT margin	123,6%	107.0%	-5.9%	1.2%	1.7%	2.9%
Net margin	123,6%	107.0%	-5.9%	1.2%	1.7%	2.9%

Sales activity key figures	**6M and 30 June 2021**	**6M and 30 June 2020**	**6M and 30 June 2019**	**6M and 30 June 2018**	**6M and 30 June 2017**	**6M and 30 June 2016**
Revenue (EUR thousand)	5,339	9,844	19,732	21,384	22,489	22,323
Retail sales (EUR thousand)	3,898	8,391	17,437	17,853	18,415	18,718

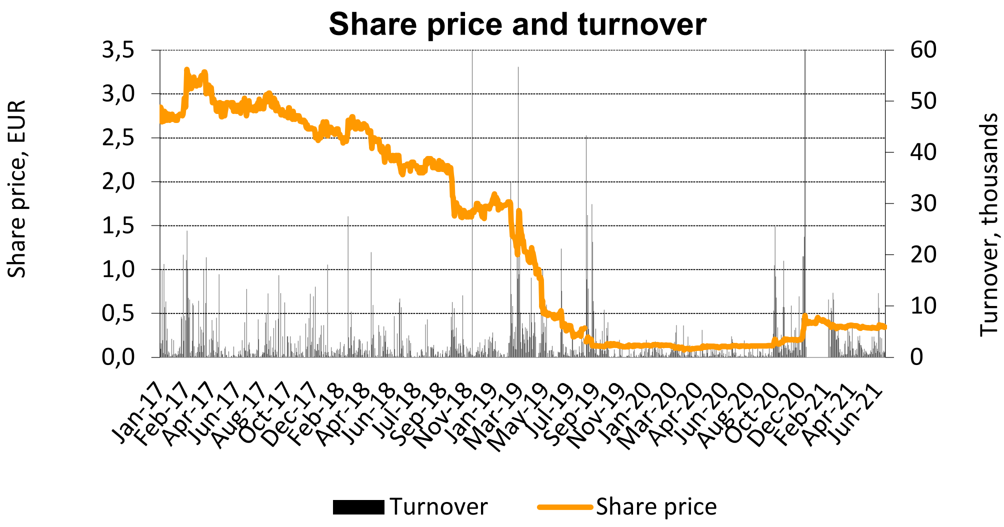
Share of retail sales in revenue	73.0%	85.2%	88.4%	83.5%	81.9%	83.9%
Share of exports in revenue	36.4%	48.8%	51.7%	54.5%	56.0%	56.0%
Number of stores in retail	43	76	89	93	94	94
Number of stores	43	76	90	122	126	130
Sales area (sqm) (end of period)	11,442	15,005	17,336	17,431	17,396	16,766
Number of employees (end of period)	214	421	908	1,014	1,057	1,070
Gross margin	47.3%	46.4%	51.6%	51.0%	50.1%	51.5%
EBITDA (EUR thousand)	619	5,287	2,176	-50	493	731
Net profit (EUR thousand)	-1,618	1,491	-2,058	-855	-391	-147
EBITDA margin	11.6%	53.7%	-10.4%	-0.2%	2.2%	3.3%
Operating margin	-27.3%	19.6%	-6.6%	-2.8%	-0.7%	0.3%
EBT margin	-30.3%	15.1%	-10.4%	-4.0%	-1.7%	-0.7%
Net margin	-30.3%	15.1%	-4.0%	-4.0%	-1.7%	-0.7%
Inventory turnover	2.60	1.14	1.80	2.00	2.00	2.00

Other ratios	**6M and 30 June 2021**	**6M and 30 June 2020**	**6M and 30 June 2019**	**6M and 30 June 2018**	**6M and 30 June 2017**	**6M and 30 June 2016**
Current ratio	0.7	0.9	0.6	1.6	1.0	1.3
Net gearing ratio	927.0%	911.98%	1319.50%	191.80%	164.30%	154.10%
Return on equity	-134.1%	148.23%	-273.00%	-19.00%	-8.50%	-2.90%
Return on assets	-9.5%	5.66%	-9.30%	-4.60%	-2.00%	-0.60%

Definitions of key ratios
EBITDA = Operating profit-amortisation depreciation and loss from disposal of fixed assets
EBITDA margin = EBITDA÷Revenue
Gross margin = (Revenue-Cost of goods sold)÷Revenue
Operating margin = Operating profit÷Revenue
EBT margin = Profit before income tax÷Revenue
Net margin = Net profit (attributable to parent)÷Revenue
Current ratio = Current assets÷Current liabilities
Inventory turnover = Cost of goods sold÷Average inventories*
Net gearing ratio = (Interest-bearing liabilities-cash and cash equivalents)÷Equity
Return on equity (ROE) = Net profit÷Average equity*
Return on assets (ROA) = Net profit÷Average total assets*

*Based on 12-month average

SHARE PRICE AND TURNOVER



MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The Management Board confirms that the management report presents a true and fair view of all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements; includes the description of major risks and doubts influencing the remainder of the financial year; and provides an overview of all significant transactions with related parties.

Flavio Perini
Chairman of Management Board, CEO
15 July 2021

Brigitta Kippak
Member of Management Board, COO
15 July 2021

INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the second quarter and 6 months of 2021 as presented on pages 11-31.

The Management Board confirms that:

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

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

3. the Group is going concern.

Flavio Perini
Chairman of Management Board, CEO
15 July 2021

Brigitta Kippak
Member of Management Board, COO
15 July 2021

Baltika Group Consolidated interim report for the II quarter and 6 months of 2021 (in thousand euros, unaudited)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2021	31 Dec 2020
ASSETS			
Current assets			
Cash and cash equivalents	3	772	1,427
Trade and other receivables	4	155	318
Inventories	5	3,126	3,467
Total current assets		**4,053**	**5,212**
Non-current assets			
Deferred income tax asset		140	140
Other non-current assets	4	143	111
Property, plant and equipment	6	968	1,218
Right-of-use assets	8	6,795	9,199
Intangible assets	7	590	597
Total non-current assets		**8,626**	**11,255**
TOTAL ASSETS		**12,679**	**16,477**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	9	377	252
Lease liabilities	8	2,460	3,127
Trade and other payables	10,11	2,775	3,019
Total current liabilities		**5,612**	**6,398**
Non-current liabilities			
Borrowings	9	1,356	874
Lease liabilities	8	4,617	6,493
Total non-current liabilities		**5,973**	**7,367**
TOTAL LIABILITIES		**11,585**	**13,765**
EQUITY			
Share capital at par value	12	5,408	5,408
Reserves	12	3,931	3,931
Retained earnings		-6,627	-6,250
Net profit (loss) for the period		-1,618	- 377
TOTAL EQUITY		**1,094**	**2,712**
TOTAL LIABILITIES AND EQUITY		**12,679**	**16,477**

Baltika Group Consolidated interim report for the II quarter and 6 months of 2021 (in thousand euros, unaudited)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

	Note	2Q 2021	2Q 2020	6m 2021	6m 2020
Revenue	13,14	3,208	3,707	5,339	9,844
Cost of goods sold	15	-1,552	-1,885	-2,811	-5,275
Gross profit		**1,656**	**1,822**	**2,528**	**4,569**
Distribution costs	16	-1,696	-2,806	-3,837	-7,006
Administrative and general expenses	17	-340	-718	-835	-1,510
Other operating income (-expense)	18	451	5,841	685	5,878
Operating profit (loss)		**71**	**4,139**	**-1,459**	**1,931**
Finance costs	19	-34	-174	-159	-440
Profit (loss) before income tax		**37**	**3,965**	**-1,618**	**1,491**
Income tax expense		0	0	0	0
Net profit (loss) for the period		**37**	**3,965**	**-1,618**	**1,491**
Total comprehensive income (loss) for the period		**37**	**3,965**	**-1,618**	**1,491**
Basic earnings per share from net profit (loss) for the period, EUR	20	0,00	0,07	-0,03	0,03
Diluted earnings per share from net profit (loss) for the period, EUR	20	0,00	0,07	-0,03	0,03

Baltika Group Consolidated interim report for the II quarter and 6 months of 2021 (in thousand euros, unaudited)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2Q 2021	2Q 2020	6m 2021	6m 2020
Cash flows from operating activities					
Operating profit (loss)		71	4,139	-1,459	1,931
Adjustments:					
Depreciation, amortisation and impairment of PPE and intangibles	15-17	972	305	2,073	1,987
Gain (loss) from sale, impairment of PPE, non-current assets, net		-13	0	15	31
Other non-monetary adjustments		0	-3,679*	0	-3,444*
Changes in working capital:					
Change in trade and other receivables	4	31	426	131	294
Change in inventories	5	525	782	341	391
Change in trade and other payables	10	-704	1,136	-244	1,932
Interest paid and other financial expense		2	-17	-3	-80
Net cash generated from operating activities		**884**	**3,092**	**854**	**3,042**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangibles	6, 7	-16	-141	-77	-225
Proceeds from disposal of PPE		0	0	0	33
Net cash used in investing activities		**-16**	**-141**	**-77**	**-192**
Cash flows from financing activities					
Received borrowings	9	0	0	0	1,000
Repayments of borrowings	9	-115	0	-115	-116
Change in bank overdraft	9	619	-337	685	757
Finance lease payments	8	-2	0	-4	0
Repayments of lease liabilities, principle	8	-934	-1,246	-1,866	-2,977
Repayments of lease liabilities, interest		-19	-183	-132	-378
Net cash generated from (used in) financing activities		**-451**	**-1,766**	**-1,432**	**-1,714**
Total cash flows		**417**	**1,185**	**-655**	**1,136**
Cash and cash equivalents at the beginning of the period	3	**356**	**215**	**1 427**	**264**
Cash and cash equivalents at the end of the period	3	**772**	**1,400**	**772**	**1,400**
Change in cash and cash equivalents		**417**	**1,185**	**-655**	**1,136**

*Other non-monetary adjustments relates to restructuring of allocated loan

Consolidated interim report for the II quarter and 6 months of 2021 (in thousand euros, unaudited)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
Balance as at 31 Dec 2019	**5,408**	**4,045**	**-6,250**	**3,203**
Loss for the period	0	0	1,491	1,491
Total comprehensive income	**0**	**0**	1,491	1,491
Reduction of the nominal value of a share	0	-3,225	0	-3,225
Balance as at 30 June 2020	**5,408**	**820**	**-4,759**	**1,469**
Balance as at 31 Dec 2020	**5,408**	**3,931**	**-6,627**	**2,712**
Loss for the period	0	0	-1,618	-1,618
Total comprehensive income	**0**	**0**	**-1,618**	**-1,618**
Balance as at 30 June 2021	**5,408**	**3,931**	**-8,245**	**1,094**

NOTES TO CONSOLIDATED INTERIM REPORT

NOTE 1 Accounting policies and methods used in the preparation of the interim report

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer that develops and operates fashion brands: Monton, Baltman and Ivo Nikkolo. The Group employes a business model that controls the following stages of the fashion process: design, supply chain management, logistics and whole-, franchise- and retail sales. AS Baltika's shares are listed on the Nasdaq Tallinn Stock Exchange. The largest shareholder and the only company holding more than 20% of shares (Note 12) of AS Baltika is KJK Fund Sicav-SIF (on ING Luxembourg S.A. account).

The Group's condensed consolidated interim report for the first quarter ended 30 June 2021 has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The interim report should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2020, which has been prepared in accordance with International Financial Reporting Standards. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2020.

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

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

NOTE 2 Financial risks

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

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

Market risk

Foreign exchange risk

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

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

Average currencies	II Q 2021	II Q 2020
USD (US dollar)	9.37%	-2.46%

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

Balance-sheet date rates (30.06.2021; 31.12.2020)	
USD (US dollar)	-2.25%

Cash and cash equivalents (Note 3), trade receivables (Note 4) and borrowings (Note 9) are in euro and thereof not open to foreign exchange risk. Trade payables (Note 10) are also in foreign currency and therefore open to foreign exchange risk.

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

Interest rate risk

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

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

Non-current borrowings in the amount of 1 220 thousand euros at 30 June 2021 and 778 thousand euros at 31 December 2020 were subject to a floating 6-month interest rate based on Euribor. The remaining non-current borrowings at 30 June 2021 in the amount of 6,785 thousand euros and 9,199 thousand euros at 31 December 2020 are the present value of the lease liabilities recognized under IFRS 16, discounted at an average interest rate of 5%. The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

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

Price risk

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

Credit risk

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

Cash and cash equivalents

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

Trade receivables

As at 30 June 2021 the maximum exposure to credit risk from trade receivables (Note 4) and other non-current assets (Note 4) amounted to 105 thousand euros (31 December 2020: 230 thousand euros) on a net basis after allowances.

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

Liquidity risk

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

The Group´s working capital is negative as at the end of the year as a result of the lease accounting. Due to IFRS 16 the next twelve months´ lease payments are recorded as short-term liabilities as of 31 December 2020 while the leased assets are non-current assets by the nature.

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, issuance of additional shares and monitors the terms of receivables and purchase contracts. The unused limit of the Group´s overdraft facilities as at 30 June 2021 was 2,315 thousand euros (31 December 2020: 3,000 thousand euros). Management is on the opinion that negative working capital does not pose a risk for Group in meeting its obligations in 2021.

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Financial liabilities by maturity at 30 June 2021

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (Note 9)[2]	1,712	371	1,365	1,736
Finance lease liabilities (Note 8)	7,077	3,209	5,070	8,279
Trade payables (Note 10)	707	707	0	707
Other financial liabilities	169	169	0	169
Total	**9,665**	**4,456**	**6,435**	**10,891**

Financial liabilities by maturity at 31 December 2020

		Undiscounted cash flows[1]		
	Carrying amount	**1-12 months**	**1-5 years**	**Total**
Loans (Note 9)[2]	1,101	246	869	1,115
Lease liabilities (Note 8)	9,620	3,761	6,650	10,411
Trade payables (Note 10)	1,044	999	45	1,044
Other financial liabilities	60	60	0	60
Total	**11,825**	**5,066**	**7,564**	**12,630**

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

Operational risk

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

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

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

The most important operating risk arises from the Group’s inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted. To ensure good collections, the Group employs a strong team of designers who monitor and are aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have been set up at the Group which help daily monitoring of sales and balance of inventories and using the information in subsequent activities. To avoid supply problems, cooperation with the world’s leading procurement intermediaries as well as fabric manufacturers has been expanded.

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

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

Effects of the coronavirus

The spread of COVID-19 had the greatest impact on the economic environment of Baltic States and the world, and thus on the Group’s financial results. Various measures to prevent the spread of the virus were implemented on a large scale in the Baltic States in March 2020 and they brought about drastic changes in the current way of life and the economic environment, therefore affecting the daily work of the Group’s companies.

Another new risk from 2020 related to COVID-19 is the risk of having stores closed due to restrictions in the country. In 2020 spring the stores were closed in the weekends for nearly 2 months in Latvia and fully for one and a half months in Lithuania and close to two months in Estonia. In the beginning of winter the stores were fully closed in Latvia and Lithuania from mid December and they remain closed when writing this report. In Estonia the stores were closed for the second time only in mid March 2021. During the reporting period, the stores have been reopened in Lithuania from 19 April 2021, in Estonia on 3 May 2021 and in Latvia from 3 June 2021. E-com has remained operational all the time. This risk has further variability of different conditions that might effect the results for the Group: whether any stores have direct entrances from street, whether subsidiary and/or Group is applicable for government support. This risk has implications for stock management, cost management etc. The increase in the sales of the e-commerce did not compensate for the decrease in sales of the Baltika Group´s physical stores. Coronavirus has had a part in decrease in sales (see Note 17), reduction of rent expense through government support (see Note 19) and reduction of payroll through government support (see Note 19 and 20).

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. This risk is significantly reduced for going forward in 2021 with material shift in more procurement coming from closer countries.

Baltika Group is consistently monitoring changing risk assessments and analysing the effects of the virus on an ongoing basis. Management is on the opinion that the risks will not materialise in 2021 to such extent to endanger the Group’s ability to continue as a going concern.

Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as going concern 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 based on 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.

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Net gearing ratio

	30 June 2021	31 Dec 2020
Interest carrying borrowings (Note 8, 9)	10,912	10,341
Cash and bank (Note 3)	-772	-1,427
Net debt	10,140	8,914
Total equity	1,094	2,712
Net gearing ratio	**927%**	**329%**

Fair value

The Group estimates that the fair values of the financial assets and liabilities denominated in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 30 June 2021 and 31 December 2020.

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

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

NOTE 3 Cash and cash equivalents

	30 June 2021	31 Dec 2020
Cash at hand	49	34
Cash at bank and overnight deposits	723	1,393
Total	**772**	**1,427**

All cash and cash equivalents are denominated in euros.

NOTE 4 Trade and other receivables

Short-term trade and other receivables	**30 June 2021**	**31 Dec 2020**
Trade receivables, net	105	230
Other prepaid expenses	74	79
Tax prepayments and tax reclaims, thereof	-33	1
Value added tax	-33	1
Other current receivables	9	8
Total	**155**	**318**
Long-term assets		
Non-current lease prepayments	143	111
Total	**143**	**111**

All trade and other receivables are in euros.

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

30 June 2021	Baltic region	Eastern European region	Total
Not due	103	0	103
Up to 1 month past due	0	0	0
1-3 months past due	0	0	0
3-6 months past due	0	0	0
Over 6 months past due	2	0	2
Total	**105**	**0**	**105**

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

NOTE 5 Inventories

	30 June 2021	31 Dec 2020
Fabrics and accessories	1	53
Allowance for fabrics and accessories	-1	-53
Finished goods and goods purchased for resale	2,997	3,587
Allowance for impairment of finished goods and goods purchased for resale	0	-250
Prepayments to suppliers	129	130
Total	**3,126**	**3,467**

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NOTE 6 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments, PPE not in yet in use	Total
31 December 2019					
Acquisition cost	2,746	1,004	4,235	5	7,990
Accumulated depreciation	-1,987	-856	-3,464	0	-6,307
Net book amount	**759**	**148**	**771**	**5**	**1,683**
Additions	92	18	36	35	181
Disposals	-8	-59	-9	0	-76
Reclassification	40	0	0	-40	0
Depreciation	-169	-28	-162	0	-359
30 June 2020					
Acquisition cost	**2,692**	**923**	**4,061**	**0**	**7,676**
Accumulated depreciation	-1,978	-844	-3,425	0	-6,247
Net book amount	**714**	**79**	**636**	**0**	**1,429**
31 December 2020					
Acquisition cost	**2,384**	**937**	**3,703**	**0**	**7,024**
Accumulated depreciation	-1,794	-843	-3,169	0	-5,806
Net book amount	**590**	**94**	**534**	**0**	**1,218**
Additions	15	5	20	0	40
Disposals	-14	-2	-12	0	-28
Depreciation	-138	-17	-107	0	-262
30 June 2021					
Acquisition cost	**2,065**	**927**	**3,333**	**0**	**6,325**
Accumulated depreciation	-1,612	-847	-2,898	0	-5,357
Net book amount	**453**	**80**	**435**	**0**	**968**

NOTE 7 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
31 December 2019					
Acquisition cost	**885**	**643**	**46**	**154**	**1,728**
Accumulated depreciation	-763	-429	0	0	-1,192
Net book amount	**122**	**214**	**46**	**154**	**536**
Additions	28	0	16	0	44
Disposal	-1	0	-5	0	**-6**
Amortisation	-9	-16	0	0	**-25**
30 June 2020					
Acquisition cost	**913**	**643**	**57**	**154**	**1,767**

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Accumulated depreciation	-772	-445	0	0	-1,217
Net book amount	**140**	**198**	**57**	**154**	**549**
31 December 2020					
Acquisition cost	**974**	**643**	**73**	**154**	**1,844**
Accumulated depreciation	-786	-461	0	0	-1,247
Net book amount	**188**	**182**	**73**	**154**	**597**
Additions	0	0	37	0	**37**
Amortisation	-27	-16	0	0	**-43**
30 June 2021					
Acquisition cost	**974**	**643**	**110**	**154**	**1,880**
Accumulated depreciation	-813	-477	0	0	-1,290
Net book amount	**160**	**166**	**110**	**154**	**590**

NOTE 8 Finance lease

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

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	Right-of-use assets
Net assets 31.12.2019	**16,040**
Depreciation	366
Additions	1,946
Discount	-2,923
Net assets 30.06.2020	**11,537**
Net assets 31.12.2020	**9,199**
Additions	121
Terminations	-744
Depreciation	-1,791
Net assets 30.06.2021	**6,785**

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

	30 June 2021	31 Dec 2020
Lease liabilities		
Current	2,460	3,127
Non-current	4,617	6,493
Total lease liabilities	**7,077**	**9,620**

Detailed information on minimum lease payments by maturity is disclosed in Note 2.

Amounts recognised in the statement of profit or loss

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

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	2Q 2021	2Q 2020	6k 2021	6k 2020
Interest expense (under finance cost, Note 19)	19	183	131	378
Deprecation (under operating expenses, Notes 15-17)	840	1,442	1,791	2,923
Kokku	**859**	**1,625**	**1,922**	**3,301**

The total cash outflow for long-term leases in I half a year of 2021 was 1,425 thousand euros (6 months 2020: 1,665 thousand euros).

Offices and commercial premises rent contracts have mainly been concluded for fixed term, on average for 5 years and include mostly rights to prolong and terminate. Rental conditions are agreed contract by contract and therefore can include various conditions.

NOTE 9 Borrowings

	30 June 2021	31 Dec 2020
Current borrowings		
Current portion of bank loans	356	227
Current portion of finance lease liabilities	21	25
Total	**377**	**252**
Non-current borrowings		
Non-current bank loans	535	778
Non-current overtraft	685	0
Other non-current liabilities	136	96
Total	**1,356**	**874**
Total borrowings	**1,733**	**1,126**

During the reporting period, the Group made bank loan repayments in the amount of 115 thousand euros (6 months 2020: 116 thousand euros). Group´s overdraft facilities with the banks were used in the amount of 685 thousand euros as at 30 June 2021 (31 December 2020: 0 euros).

Interest expense from all interest carrying borrowings in the reporting period amounted to 159 thousand euros (6 months 2020: 400 thousand euros), 6 months interests from lease liabilities recognised under IFRS 16 in the amount of 132 thousand euros (6 months 2020: 378 thousand euros).

Changes in 2020

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

In accordance with creditors' claims restructuring plan approved on 19 June 2020 the overdraft agreement (in the amount of 3,000 thousand euros) was extended till 31.12.2023 and the investment loan repayment schedule was changed in a way that repayments will be made from June 2021 till December 2023. KJK Fund SICAV-SIF loan was restructured in a way that only 15% of claim will be paid and in the end of 2023.

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

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

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Interest carrying loans and bonds of the Group as at 30 June 2021

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 6-month Euribor)	EURIBOR +2.00%	1,576
Total		**1,576**

Interest carrying loans and bonds of the Group as at 31 December 2020

	Average risk premium	Carrying amount
Borrowings at floating interest rate (based on 6-month Euribor)	EURIBOR +2.00%	1,006
Total		**1,006**

NOTE 10 Trade and other payables

	30 June 2021	31 Dec 2020
Current liabilities		
Trade payables	707	1,044
Tax liabilities, thereof	1,227	1,203
Personal income tax	203	164
Social security taxes and unemployment insurance premium	440	406
Value added tax	584	633
Payables to employees[1]	571	391
Other current payables	148	35
Other accrued expenses	39	18
Customer prepayments	54	98
Total	**2,746**	**2,789**

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

Trade payables and other accrues expenses in denominated currency

	30 June 2021	31 Dec 2020
EUR (euro)	739	940
USD (US dollar)	7	122
Total	**746**	**1,062**

NOTE 11 Provisions

	30 June 2021	31 Dec 2020
Other provision[1]	29	230
Total	**29**	**230**

Short description of the provision

Other provision[1] includes store closure in 2021 expense reserve.

Assumptions used

The provision is calculated using assumptions made by Management as described in the Group´s consolidated annual financial statements for the year ended 31 December 2020.

NOTE 12 Equity

Share capital and reserves

	30 June 2021	31 Dec 2020

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Share capital	5,408	5,408
Number of shares (pcs)	54,079,485	54,079,485
Nominal value of share (EUR)	0.10	0.10
Other reserves	3,931	3,931

As at 30 June 2021, 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 2020, under the Articles of Association, the company's minimum share capital was 2,000 thousand euros and the maximum share capital was 8,000 thousand euros. As at 30 June 2021 and 31 December 2020 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange and all shares have been paid for.

Changes in year 2020

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

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

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

Shareholders as at 30 June 2021

	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	231 578	0,43%
4. Other shareholders	4,250 907	7,86%
Total	**54,079,485**	**100%**

Shareholders as at 31 December 2020

	Number of shares	Holding
1. ING Luxembourg S.A.	48,526,500	89.73%
2. 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	231 578	0,43%
4. Other shareholders	4,250 907	7,86%
Total	**54,079,485**	**100%**

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

NOTE 13 Segments

Description of segments and principal activities:

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

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

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

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

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

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

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

	Retail segment	**E-com segments**	**All other segments[1]**	**Total**
2 Q 2021				
Revenue (from external customers)	2,730	391	86	3,207
Segment profit (loss)[2]	561	-10		584
Incl. depreciation and amortisation	-103	-6		-109
2 Q 2020				
Revenue (from external customers)	3,006	661	247	6,137
Segment profit (loss)[2]	- 832	-147	-4	-983
Incl. depreciation and amortisation	-158			-158
6M 2021 and as at 30 June 2021				
Revenue (from external customers)	3,898	1,347	94	5,339
Segment profit (loss)[2]	-369	103	33	-233
Incl. depreciation and amortisation	-227	-6		-238
Inventories of segments	2,287			2,287
6M 2020 and as at 30 June 2020				

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Revenue (from external customers)	8,391	1 166	287	9,844
Segment profit (loss)[2]	-1,696	187	61	-1,448
Incl. depreciation and amortisation	-338			-338
Inventories of segments	3,932			3,932

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

Reconciliation of segment profit to consolidated operating profit

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Total segment profit	584	-983	-233	-1,944
Unallocated expenses[1]:				
Costs of goods sold and distribution costs	-246	-1	-1,076	-493
Administrative and general expenses	-718	-718	-835	-1,510
Other operating income (expenses), net	451	5,841	685	5,878
Operating profit (loss)	**71**	**4,139**	**-1,459**	**1,931**

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

Reconciliation of segment inventories to consolidated inventories

	30 June 2021	31 Dec 2020
Total inventories of segments	2,287	2,643
Inventories in Parent company and production company	839	824
Inventories on statement of financial position	**3,126**	**3,467**

NOTE 14 Revenue

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Sale of goods in retail channel	2,730	3,006	3,898	8,391
Sale of goods in wholesale and franchise channel	62	20	65	220
Sale of goods in e-commerce channel	391	661	1,347	1,166
Other sales	24	20	29	67
Total	**3,207**	**3,707**	**5,339**	**9,844**

Sales by geographical (client location) areas

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Estonia	2,040	1,900	3,575	4,954
Lithuania	767	951	1,047	2,594
Latvia	378	795	659	2,166
Russia	6	14	18	27
Austria	0	0	0	1
Finland	4	22	9	57
Germany	2	5	4	7
Ukraine	4	9	12	18
Other countries	6	11	15	20
Total	**3,207**	**3,707**	**5,339**	**9,844**

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NOTE 15 Cost of goods sold

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Materials and supplies	1,682	1,885	3,061	5,405
Changes in inventories	-130	0	-250	-130
Total	**1,552**	**1,885**	**2,811**	**5,275**

NOTE 16 Distribution costs

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Payroll costs[1]	675	1,212	1,494	3,060
Operating lease expenses[2]	-266	0	-363	191
Advertising expenses	146	83	263	337
Depreciation and amortisation (Note 6,7)	945	1,398	2,019	2,856
Fuel, heating and electricity costs	35	55	84	151
Municipal services and security expenses	44	64	98	154
Fees for card payments	15	15	22	45
Information technology expenses	44	29	82	79
Travel expenses	0	1	0	23
Consultation and management fees	20	17	28	46
Communication expenses	7	13	17	31
Other sales expenses[3]	31	-81	93	33
Kokku	**1,696**	**2,806**	**3,837**	**7,006**

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

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

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

NOTE 17 Administrative and general expenses

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Payroll costs	214	283	596	600
Operating lease expenses[1]	1	5	2	14
Information technology expenses	42	43	86	91
Bank fees	23	5	34	26
Depreciation and amortisation (Note 6,7)	27	223	54	447
Fuel, heating and electricity expenses	2	18	4	46
Management, juridical-, auditor´s and other consulting fees	21	116	34	209
Other administrative expenses[2]	10	25	25	77
Total	**340**	**718**	**835**	**1 ,510**

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

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

NOTE 18 Other operating income and expenses

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Gain (loss) from sale, impairment of PPE	14	-88	-14	-58
Other operating income[1]	438	5,942	708	5,951
Foreign exchange gain (-loss)	2	-11	-3	-8
Fines, penalties and tax interest	0	0	0	-2
Other operating expenses	-3	-2	-6	-5
Total	**451**	**5,841**	**685**	**5,878**

[1]Other operating income includes government subsidy for working capital.

NOTE 19 Finance costs

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Interest cost	-34	-174	-159	-440
Total	**-34**	**-174**	**-159**	**-440**

In 6 months of 2021, interest expense includes accounted interest expense from lease liabilities (IFRS 16) in the amount of 132 thousand euros (6 months 2020: 378 thousand euros).

NOTE 20 Earnings per share

Basic earnings per share		**2 Q 2021**	**2 Q 2020**	**6m 2021**	**6m 2020**
Weighted average number of shares (thousand)	pcs	54,079	54,079	54,079	54,079
Net loss from continuing operations		37	3,965	-1,619	1,491
Basic earnings per share	**EUR**	**0,00**	**0,07**	**-0,03**	**0,03**
Diluted earnings per share	**EUR**	**0,00**	**0,07**	**-0,03**	**0,03**

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in the reporting period was 0.34 euros (2020: 0.12 euros).

NOTE 21 Related parties

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

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

- owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 12);
- members of the Management Board and the Supervisory Board[1];
- immediate family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Board.

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

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Transactions with related parties

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Services purchased	6	6	12	12
Total	**6**	**6**	**12**	**12**

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

Balances with related parties

	30 June 2021	31 Dec 2020
Other loans and interests (Note 9, 12)	3,992	3,992
Payables to related parties total	**3,992**	**3,992**

All transactions in 2021 as well as in 2020 reporting periods and balances with related parties as at 30 June 2021 and 31 December 2020 were with entities under the control or significant influence of the members of the Supervisory Board.

Compensation for the members of the Management Board and Supervisory Board

	2 Q 2021	2 Q 2020	6m 2021	6m 2020
Salaries of the members of the Management Board	81	116	282	182
Remuneration of the members of the Supervisory Council	4	4	13	14
Total	**85**	**120**	**295**	**196**

As at 30 June 2021 was two Management Board Member and four Supervisory Board Members. 31 December 2020 were two Management Board Members and five Supervisory Board Members.

Changes in the Management Board in 2021

At the meeting on June 1, the Supervisory Board elected Brigitta Kippak, Chief Operating Officer, as a new member of the Management Board from the same day. At the meeting held on 1 June, the Supervisory Board recalled Triinu Tarkin from the position of Member of the Management Board and Chief Financial Officer on the basis of her application as of 4th June 2021.

Changes in the Supervisory Board in 2020

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

Changes in the Management Board in 2020

According to the decision of the Supervisory Board held in 11 March, Flavio Perini is the new CEO and Member of Management Board of AS Baltika from 1 May 2020. Mae Leyrer, Member of the Management Board of AS Baltika 14-months contract expired on 22 May 2020. The contract of Maigi Pärnik-Pernik, Member of the Management Board, expired in March 2020 and was extended to 22 May 2020 according to the decision made on 11 March by Supervisory Board.

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

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
Baltika shares held on 30 June 2021: 0

REET SAKS
Member of the Supervisory Board since 25.03.1997
Legal Advisor at Farmi Piimatööstus
Degree in Law, University of Tartu
Baltika shares held on 30 June 2021: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Board since 18.06.2009
Managing Director of Kaima Capital Oy
Master of Economics, University of Helsinki
Baltika shares held on 30 June 2021: 231,578 shares (on Kaima Capital Eesti OÜ account)

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
Baltika shares held on 30 June 2021: 0

AS BALTIKA MANAGEMENT BOARD

FLAVIO PERINI
Member of the Management Board, CEO since May 1st 2020
Member of the Board since 2020, in the Group since 2020
Law Degree (Università degli Studi di Parma)
Baltika shares held on 30 June 2021: 0

BRIGITTA KIPPAK
Member of the Management Board
Member of the Board since June 1st 2020, in the Group since 1997
Economics Degree (University of Tartu)
Baltika shares held on 30 June 2021: 1 575