AS BALTIKA

2020

ANNUAL REPORT

Baltika Group

Baltika Group

AS BALTIKA

2020 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Valukoja 10, Tallinn 11415, Estonia
Phone	+372 630 2700
E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, purchase and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2020 - 31.12.2020

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, 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. As at 31 December 2020 Group had 61 Baltika's retail-stores in three markets in the Baltics. The shares of AS Baltika are listed on the Nasdaq Tallinn Stock Exchange that is part of the exchange group NASDAQ.

MISSION AND KEY STRATEGIC STRENGTHS

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

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

KEY FIGURES AND RATIOS

	2020	2019	2018	2017	2016
Comprehensive income data, in millions					
Revenue	19.5	39.6	44.7	47.5	47.0
Gross profit	9.7	19.2	21.5	23.7	23.5
EBITDA	6.5	3.8	-2.9	1.9	2.0
Operating profit	0.5	-4.5	-4.7	0.6	0.7
Profit before income tax	-0.2	-5.9	-5.2	0.1	0.2
Net profit	-0.4	-5.9	-5.1	0.1	0.2
Other data					
Number of stores in retail	61	82	94	95	95
Number of stores total	61	82	117	128	128
Retail sales area in the end of period, sqm	14,869	16,467	17,758	17,741	17,161
Number of employees (31 Dec)	277	529	975	1,026	1,049
Sales activity key figures					
Revenue growth	-50.8%	-11.4%	-5.8%	1.0%	-4.0%
Retail sales growth	-52.2%	-7.4%	-2.7%	-0.5%	-7.1%
Share of retail sales in revenue	89.7%	89.7%	86.0%	83.2%	84.4%
Share of exports in revenue	49.0%	54.3%	55.1%	55.4%	56.4%
Gross margin	49.6%	48.4%	48.1%	49.9%	50.0%
Operating margin	2.7%	-11.4%	-10.5%	1.3%	1.5%
EBT margin	-1.2%	-14.9%	-11.6%	0.2%	0.4%
Net margin	-1.9%	-14.9%	-11.4%	0.1%	0.4%
Inventory turnover	3.14	2.24	2.14	2.15	2.17
Financial position data, in millions					
Total assets	16.5	27.3	15.0	17.8	18.9
Interest-carrying liabilities	10	20	9.0	6.7	7.0
Shareholders' equity	2.7	3.2	0.1	5.2	5.0
Current ratio	0.9	0.8	0.9	1.8	1.1

Debt to equity ratio	381.3%	624.3%	13660.8%	128.7%	141.6%
Net gearing ratio	328.7%	1640.0%	12785.0%	115.1%	133.2%
ROE	31.3%	3408.7%	-138.0%	1.3%	3.8%
ROA	1.5%	-21.4%	-28.2%	0.3%	0.9%

Key share data, EUR[1]					
Number of shares outstanding (31 Dec)	54,079,485	54,079,485	40,794,850	40,794,850	40,794,850
Weighted average number of shares	54,079,485	36,068,899	40,794,850	40,794,850	40,794,850
Share price (31 Dec)	0.41	0.14	0.16	0.25	0.28
Market capitalisation, in millions (31 Dec)	22.2	7.3	6.7	10.4	11.5
Earnings per share (EPS)	-0.01	-0.16	-0.13	0.00	0.00
Diluted earnings per share (DPS)	-0.01	-0.16	-0.13	0.00	0.00
Change in EPS, %	96%	23.08%	2981%	0%	103%
P/E	-58.84	-0.88	-1.80	57.61	65.21
Book value per share	0.05	0.02	0.00	0.13	0.12
P/B	8.2	6.31	97.4	2.0	2.3
Dividend per preference share	0	0	0	0	0
Interest rate	0%	0%	0%	0%	0%
Preference share dividend payout ratio	0%	0%	0%	0%	0%
Dividend per share	0*	0*	0*	0*	0*
Dividend yield	0%*	0%*	0%*	0%*	0%*
Dividend payout ratio	0%*	0%*	0%*	0%*	0%*

*Proposal to the general meeting.

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

Definitions of key figures and ratios

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

*Based on 12-month average

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 5 to 39 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Flavio Perini
Chairman of the Management Board, CEO
24 March 2021

Triinu Tarkin
Member of the Management Board, CFO
24 March 2021

MANAGEMENT REPORT

CEOs' STATEMENT

Long before COVID-19 became a ubiquitous threat, the retail sector was undergoing massive transformation. The current disruption has only accelerated existing trends. Indeed, the pre-pandemic shift can be easily illustrated in just a few stats. E-commerce retail sales are expected to increase by almost 17 percent (in CAGR terms) between 2010 and 2024.

The next fastest growing channel (Discounters) will only achieve 3.4 percent growth over that time. Then consider the fact that, before the pandemic, almost 16 percent of sales were already flowing through non-store retailing. The shift towards online and digital channels was already well underway.
The pandemic which has negatively and heavily affected the whole retail business worldwide with two different waves during early Spring 2020 and in Q4, pushed disruption into hyperdrive. In some markets, consumers were essentially mandated to limit themselves to online shopping during lockdowns. In-store retailing was put into a timeout. Some business models thrived while others were nearly choked into a premature demise.
Yet while real GDP is expected to have declined by 3.1 percent globally in 2020, some economists expect growth of 5.7 percent in 2021. Inflation will also start to rise again. And, as the pandemic comes to an end, we expect to see consumers start to — once again — evolve their buying patterns and purchasing priorities to reflect their new reality.

I strongly believe only those retailers able to quickly embrace new consumer and workforce trends will almost certainly have a competitive advantage in this age of accelerated disruption.
While many physical off-line stores will likely return to growth over the coming years, those looking to drive growth through physical stores alone will surely struggle. This places a question-mark over the overall viability of the retail business model. The retail business model had remained largely unchanged for decades, as also for Baltika during last decade and by that time the most successful retailers were those that were the best at sourcing desired products, shipping them and selling them in physical locations.

Now, with routes to market evolving, this recipe for success has changed. The legacy retail business model has been disrupted and to succeed in the future, retailers will need to evolve at pace and become either platform ecosystems, true omni-channel players, or smaller niche-focused specialists.
This transition will require pace, capital, and capabilities — with not all these available in abundance for most organizations, many will need to proactively consider important cooperation with key on-line business platforms with strong commercial partnerships as our Group is already considering since last few months to rapidly expand our business all over EU countries.

To remain competitive in this environment, Baltika Group and all retailers will need to define their future strategic path and those who choose to ignore change and continue with business as usual will find it increasingly difficult to remain relevant over time.

2020 for AS BALTIKA: key facts and figures

- After being very close to bankruptcy after first COVID-19 wave in early spring 2020 followed by the official approval of the reorganisation plan at the end of August 2020 from Harju County Court, the Group has found the way to rapidly reshape its business model and to act flexibly. The key decisions taken have led the group to reach the first key post-reorganisation target which was to get to financial stability already by the end of 2020. Even if the Q4 sales results were heavily affected by all store closures in Lithuania and Latvia and restrictions all over our core market Estonia, the group has been capable to end 2020 with a positive cash and bank position – more than 1.4 million euro – which has not happened at least last 6 years.

- Due to COVID-19 pandemic, all orders planned for autumn-winter 2020 were critically reduced by more than 55% compared to 2019. In addition to that, several important discounts were given by the suppliers related to spring-summer 2020 collection as well as some important rent reductions related to our physical store network.

- Meanwhile, over last 7 months the group has reviewed most of its physical store network portfolio all over the Baltics. More than 21 unprofitable stores were already closed by end of 2020 (from 82 to 61 at the end of 2020). Additionally, over 10 unprofitable stores closures have been agreed and planned to be executed with the support of the shopping malls by the end of Q2 2021 latest.

- Baltika has decided to move further with only one womenswear brand – Ivo Nikkolo – to renew our customer base with a younger and feminine product, to become more modern and attractive with clean design handwriting as well as more attention to details and fabrics keeping still affordable price points and moving further towards sustainability. In 2020 the group decided to launch a brand-new Ivo Nikkolo accessories line in spring-summer 2021. The upgraded accessories line, produced mostly in Italy, offers stylish and timeless selection of accessories made of natural materials at affordable price points to meet our customers' needs even more.

- Baltika group has taken important and crucial decisions to heavily reduce its operating costs during the whole 2020. Compared to 2019 the costs were decreased by more than 7 million euros. Additional 3 million euros of savings are planned for 2021.

- The sales in e-commerce in 2020 were more than 2 million euro, which represents approximately 11% of our 2020 (e-com made up 5% of sales in 2019) total sales with a slight increase vs 2019 despite considering our total stock position at group level was reduced by more than 54% in 2020 compared to 2019.

- E- commerce sales department has managed to strike important commercial partnership deals with important on-line players to boost the e-commercial sales further in 2021 and has been involved in the process of finalising and launching our new e-store front-end page which went live by the end of February 2021.

- The Group has fully reviewed the whole supply chain to get it shorter and provide higher quality items with reasonable price without any compromise on quality that is necessary for Baltika Group and Ivo Nikkolo's brand proposition.

- 2020 was a year to rethink Baltika Group´s business and to rephrase our new mission and values. First, as an important milestone of creating the new Ivo Nikkolo brand. Second, to set a clear business focus for the upcoming period.

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

As Ivo Nikkolo, we are:

Ambitious

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

Transparent

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

Responsible

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

Optimistic

We find opportunities in the world changing around us. We see challenges as something to overcome together and discover the moments of growth in the process.

- At this stage, due to the overall uncertainties caused by COVID-19 pandemic, it looks very difficult to predict what will happen all over the next 12 months. Everything will depend on how the community worldwide will be capable to execute a proper plan for vaccines to reduce the spread of the virus which might help the overall economy to recover relatively soon to 2019 levels.
- Due to all of our store network closures in Lithuania, Latvia and Estonia, we might face some difficulties in our top line during the first half of 2021. Therefore, some signals of important recovery might happen already by end of Q2 and for the whole 2nd half-year of 2021 if the spread of the virus will be taken under control by regional authorities.
- We continue to explore possibilities in the Baltics and EU for potential future M&A which might be considered during the upcoming years.

Flavio Perini
Chairman of the Management Board, CEO

FINANCIAL RESULTS OF 2020

Baltika Group ended the financial year 2020 with the loss of 377 thousand euros, including non-recurring income related to Baltika's reorganisation plan approval in the amount of 5,905 thousand euros and negative impact of year end reserves of 230 thousand euros for store closures and 140 thousand for deferred tax asset. Previous year loss was 5,909 thousand euros.

For twelve months total, Baltika Group's sales decreased 51% to 19,480 thousand euros. E-commerce showed a 4% increase in sales, retail sales decreased by 52% and business customer`s sales decreased by 85% as planned exit from business customer sales channel took place.

In 2020, the retail sales were 16,995 thousand euros, which is 52% less than in the previous year. There are many reasons (planned and unexpected) behind this decrease: not going forward with one mainstream brand Mosaic, COVID-19 first and second wave, very optimized stock position in the second half-year due to both unpredictability of situation with COVID-19 and the focus in line with restructuring on financial position. Sales revenue decreased the most in Latvia and Lithuania by -56% and -53% respectively, but Estonian market followed shortly with -50%. The sales varied by quarter, still the best first quarter saw the sales still decreasing by 32% and hardest hit quarter was the second quarter with -68% impacted by COVID-19 first wave.

In 2020, Baltika Group's online store increased its sales by 4% and was 2,153 thousand euros. Online store is still mainly popular in Baltic countries from where 93% of the sales revenue is generated. Over half of sales revenue comes from Estonia.

The gross profit of the Group was 9,676 thousand euros, which is 9,515 thousand euros less than in 2019. The decline in gross profit in 2020 was due to the decrease in sales. Gross profit margin was 49.7%, which is higher by 1.3 percentage point compared to 2019.

Baltika Group's distribution and administrative expenses decreased for the twelve months by 7,673 thousand euros that is 34%. When the first quarter decrease was still a limited 11%, then due to COVID-19 and all the efforts made in line with restructuring plan, the decrease was growing quarterly and constantly over 40%.

Other operating income of 2020 in the amount of 5,442 thousand euros is mainly due to 4,585 thousand euros connected with restructuring of creditors' claims in accordance to the restructuring plan approved on 19 June 2020. It also includes the reversal of the impairment of the right to use the property arising from the lease agreements for the production buildings in the amount of 1,320 thousand euros. End of the year includes the reserve expense made for closing stores in 2021 in the amount of 230 thousand euros.

Yearly net financial expense was 761 thousand euros and tax expense 147 thousand euros due to change in deferred tax reserve in the amount of 140 thousand euros.

Baltika Group finished the turbulent year of COVID-19 and start of reorganisation with 377 thousand euros net loss.

HIGHLIGHTS OF THE PERIOD UNTIL THE RELEASE OF ANNUAL REPORT

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

- First wave of COVID-19 meant that all Baltika Group´s stores were closed from March 16, 2020 in Lithuania and from March 27, 2020 in Estonia. Latvian government chose a different strategy whereby all the Baltika stores were closed only in the weekends from March 28, 2020. On April 25, 2020, all retail stores of the Baltika Group located in Lithuania were reopened, the reopening of the Estonian stores took place on May 11, 2020. Latvian market retail stores were opened fully May 16, 2020.

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

- On April 30, 2020, the last Baltika Group´s retail store in Iso Omena shopping center in Finland was closed. Finnish subsidiary´s bankruptcy lapsed in October 2020.

- The Annual General Meeting of AS Baltika resolved on August 16, 2020 to approve the Annual report for 2019 and covering of net loss from retained earnings, to recall Supervisory Board Member Tiina Mõis in light of her resignation application, to appoint AS PricewaterhouseCoopers as the auditor of AS Baltika for auditing the financial year 2020 and to remunerate the auditor pursuant to the agreement entered respectively.

- AS Baltika and AS Baltika's shareholder KJK Fund SICAV-SIF, via its holding company, have entered on August 24, 2020 into a loan agreement, under which KJK Fund SICAV-SIF via its holding company granted to AS Baltika a loan with the principal amount of 2,550 thousand euros, interest rate of 6.0% and repayment date 31 December 2024. Amounts arising from the loan are repayable as a single payment on the repayment date (i.e., as a "bullet" payment) and the loan has been granted without collateral.

- As of October 1, 2020, the company's new legal address and actual location is Valukoja 10, 11415 Tallinn, Estonia.

- At the meeting on October 20, 2020 the Supervisory Board of AS Baltika decided to appoint Maigi Pärnik-Pernik and Marin Käärik-Anton as new Audit Committee members.

- AS Baltika´s subsidiary Baltman OÜ was forced to close Ivo Nikkolo brand´s flagship store in Tallinn old town on Suur-Karja street in November 2020 due to drastic decrease in retail sector following the COVID-19 pandemic. In the new economic situation, Baltman OÜ considers not possible to pay store rental fee which is 4 times higher than the average rent in Tallinn old town.

- With second wave of COVID-19 in Baltic countries, Latvian government announced state of emergency from November 9, 2020 and due to restrictions imposed, all Baltika´s stores in the country were closed in the weekends beginning from November 14, 2020. Full closure became effective from December 19, 2020. Lithuanian government declared lockdown from November 7, 2020 and made further restrictions closing all stores except grocery from December 16, 2020.

- As of December 1, 2020 AS Baltika Group´s Supervisory Board elected Triinu Tarkin to the Management Board of AS Baltika. Triinu Tarkin´s mandate began from December 1, 2020 and lasts for the period of 3 years.

- On December 30, 2020 AS Baltika signed amendment to the existing loan agreements with KJK Fund Sicav-SIF and it´s holding whereby the full amount of loan remaining after reorganisation plan and the new loan together with the payable obtained from third party in total amount of 3,931 thousand euros was restructured as subordinated loan that carries no interest and has no repayment obligation date.

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

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

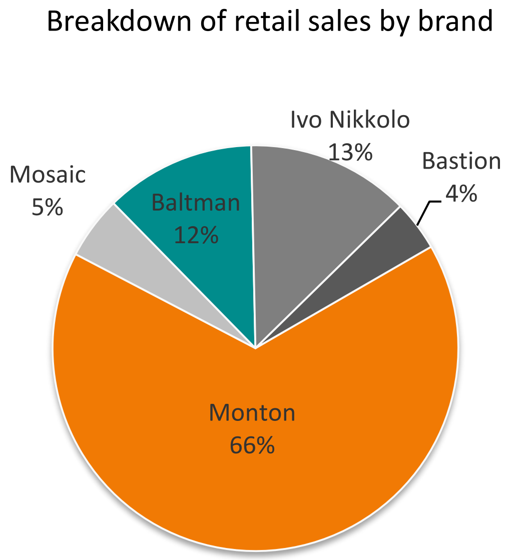
- With second wave of COVID-19 Estonian government announced further restrictions and closed all Baltika Group´s stores in the weekend from March 6, 2021 and fully from March 11, 2021.

MEETING THE OBJECTIVES OF 2020

- **Implementing a lean and more efficient organizational model.**
  Baltika Group has successfully managed to carry out the target to drastically reduce fixed costs. Head-office operating costs were reduced by over 2.5 million euros. With the number of people declining constantly over the year, moving main office to smaller space from October 2020 this reduction of fixed costs is sustainable also for going forward. Majority of the reduction in costs relates to reduction in retail costs. These are reduced not only by reduction of stores but also with expense reduction of per store and market office expenses.
- **Ensuring the success of the mainstream brand Monton.**
  Baltika Group has not seen the success of its mainstream brand Monton and neither believes in the possibility of making Monton successful. This is the reason why Baltika Group has made the strategic decision to go forward with only one brand, that will be Ivo Nikkolo. Ivo Nikkolo with its renewed contemporary quality product offer will be partly available from spring-summer 2021 and fully available from autumn-winter 2021.
- **Continually optimize the store network.**
  Baltika Group has optimized store network in 2020 and closed 20 stores over the year. As the contracts and notification periods are long, there has been additional terminations of over 10 rental contracts regarding the closing of stores in 2021.
- **E-shop renewal and growth.**
  From one side e-shop grew in 2020 by 4%, which considering one less mainstream brand to sell and significantly lower stock available to purchase in e-store in the second half of 2020, is a good result. On the other side the growth came mainly due to external reasons – COVID-19 restrictions. The renewal of e-store front-end has been postponed to February 2021 and cooperation with marketplaces and search engines that should help the online sales started only in the end of the year with focus going into technical implementation and verification.

OVERVIEW OF BRANDS

By brands, the largest share of Baltika Group's sales in 2020 was constituted by Monton with 66%. As there was no longer new collection of Mosaic and Bastion on sales then the proportions of those brands decreased significantly to 5% and 4% accordingly and the main increase in proportions went to Monton. Ivo Nikkolo and Baltman made up 13% and 12% accordingly.



Monton

In 2020, Monton`s sales revenue was 13.2 million euros, decreasing by 27% i.e 4.8 million euros in a year. In the beginning of 2020, the merger of all Baltika Group's mainstream brands under the Monton name was finished. Therefore, the decrease of Monton revenue was not as significant as for other Baltika Group brands. All Baltika Group's mainstream brands sales revenue was 14.3 million euros, decreasing by 53% i.e 16.4 million euros in a year. The main reason of the decrease of sales, as for all Baltika Group brands, was worldwide COVID-19 pandemic. Stores were mainly closed (only Latvian stores remained partly open) during spring and again in the end of the year (only Estonian stores remained open), and demand of the office clothing dropped, as more companies practise home offices and working remotely.

Photo: Monton A/W 2020

Baltika Group's mainstream brands retail revenue decreased 65%, incl Monton by 28%, which was mainly driven by the COVID-19 crises, changes in customer buying behaviour and store closings. Monton decline was partly offset by the merger of Monton and Mosaic womenswear collections, which increased Monton womenswear sales. As overall e-shop sales increased, then sales of Monton brand was growing as well, increasing sales by more than half compared to last year. Same time Baltika Group's mainstream brands sales in e-store declined by 8%. In 2020 Monton accounted for 68% of Baltika Group's sales, being the largest brand in the Baltika Group's brand portfolio.

The logos on store façade remained either Monton or Mosaic in 2020. Baltika Group's mainstream brands had 45 stores in the end of 2020, of which 21 were in Estonia, 19 in Lithuania and 11 in Latvia. In Estonia, the Monton collection is also represented in multi-brand store in Tallinn's Moetänav.

According to the Group strategy and AS Baltika reorganization plan, Monton brand is decided to discontinue from second half-year of 2021. It means that all profitable Monton stores will be rebranded to Ivo Nikkolo. Non-profitable stores, as well as not suitable stores for Ivo Nikkolo brand will be closed during 2021.

Baltman

In 2020, Baltman`s sales revenue was 2.3 million euros, decreasing by 39% i.e 1.5 million euros in a year. The main reason of the decrease of sales, as for all Baltika Group brands, and especially menswear brand Baltman, was worldwide COVID-19 pandemic. COVID-19 crises hit Baltman with two ways, from one side, the stores were mainly closed (only Latvian stores remained partly open) during spring and again in the end of the year (only Estonian stores remained open), and another side the demand of the formal closing dropped dramatically, as more companies practise home offices and working remotely.

According to the company strategy and reorganization plan was made the decision to discontinue with Baltman brand. Therefore, store closings process started and by the end of 2020 6 Baltman stores had already been closed.

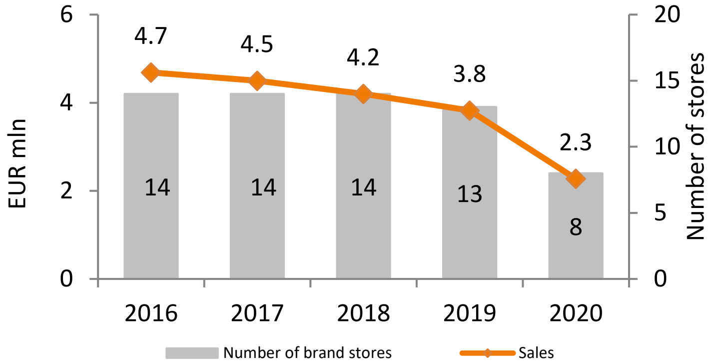



Photo: Baltman A/W 2020

At the same time, when retail sales dropped due to the crises and store closings, Baltman brand in e-shop continued to grow, increasing by 34% compared to last year. Baltman's sales revenue constituted 11% of Baltika Group's sales revenue. The largest market for the Baltman brand remains Estonia with 61% share of the total brand sales.

Together with the end of the 2020 was ended the cooperation with Tallinna and Tartu Kaubamaja, as Baltika Group discontinued the wholesale business line.

During 2021 Baltman stores closings activities will be continuing in target to close all stores by the end of the year.

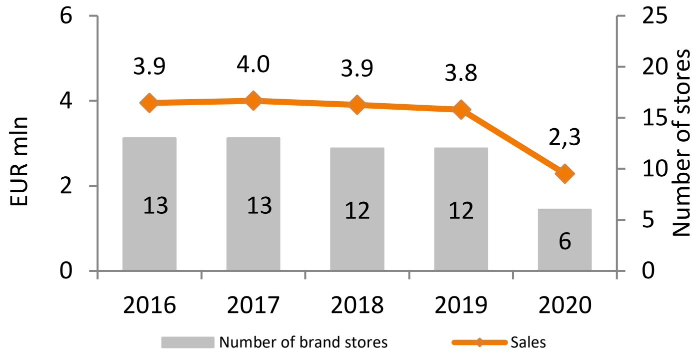
Baltman brand and Baltman unique continues to be represented in Tallinn on Moetänav store.

Baltman is the oldest brand in the Baltika Group, established in 1991. Baltman is designed for men who along with elegance, consider the fit, quality and practicality of the materials to be at least as important.

Ivo Nikkolo

In 2020, Ivo Nikkolo`s sales revenue was 3.0 million euros, which decreased by 32% i.e 1.4 million euros compared with last year. The main reason of the decrease of sales, as for all Baltika Group brands, was worldwide COVID-19 pandemic.

Retail sales decreased by 40%, mainly due to crises and store closings. The stores were closed (only Latvian stores remained partly open) during spring and again in the end of the year, when only Estonian stores remained open.



At the same time, sales revenue in e-shop increased by 51%. Ivo Nikkolo accounts for 15% of Baltika Group's sales revenue and is the only brand that will remain in Baltika Group's brand portfolio after 2021.

During 2020 Ivo Nikkolo brand was represented in 6 to 12 stores. In Estonia, the Ivo Nikkolo collection was also represented in multi-brand stores on Tallinn's Moetänav, and in Tallinna and Tartu Kaubamaja.

Photo: Ivo Nikkolo A/W 2020

Due to the company strategy and reorganization plan Baltika Group continues only with Ivo Nikkolo brand, but with larger spaces as current Ivo Nikkolo stores. Therefore, during 2020 was closed 6 Ivo Nikkolo stores and more stores will be closed going forward.

New Ivo Nikkolo brand starts to sell in previous Monton or Mosaic stores, what meet the requirements of the size. The logos on store façade are remaining either Monton or Mosaic during first half of 2021. Current Ivo Nikkolo store in Viru Keskus, Tallinn will become Ivo Nikkolo accessories test store from March 2021.

Ivo Nikkolo has become a well-known brand and a flagship of Estonian womenswear' fashion over the past 25 years of its' existence. Since the beginning it has been known for its' high-quality product offer, especially in formalwear and outerwear. Over the previous year's multiple efforts have been made to modernise its' style handwriting step-by-step and to bring a sense of youthfulness to the brand. By the end of 2021, a bolder step towards that direction will be brought to life by a renewed, international, and bigger design team of four designers, led by Head of Handwriting and Head Designer Margot Vaaderpass and Designer and Team Manager Triin Kaiv. They work in close collaboration with designers Anna Aksjonova, Timothee Gleize as the newest member of the design team and the technical team to bring to life the updated vision.

Photo: Ivo Nikkolo S/S 2021 transitional collection

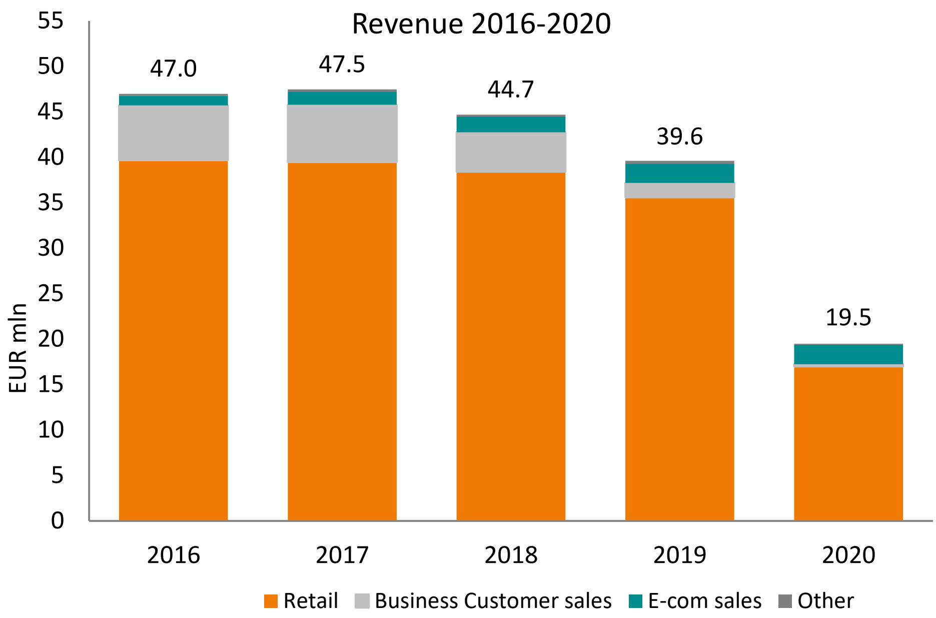
The Spring-Summer 2021 marks a transitional season between old and new, where first steps towards the updated style will be seen. Autumn-winter 2021 collection will be the official launch for the updated Ivo Nikkolo that is aimed towards more youthful woman, offering style that is feminine in modern way and clothes that translate into comfortable, versatile, and refined day to night wardrobe. Key aspects of Ivo Nikkolo - quality of the garments and attention to the details and fitting are still strong focus points of the updated brand. Also, since 2021 both- the collection and product development process have an increased focus on sustainability with a clear strategy and concrete goals for the future.

2020 Consolidated Annual Report (in thousands of euros)

REVENUE

Revenue by channels

EUR million	2020	2019	+/-
Retail	17.0	35.6	*-52%*
Wholesale and franchise	0.2	1.6	*-84%*
E-commerce	2.2	2.1	*2%*
Other	0.1	0.3	*-71%*
Total	**19.5**	**39.6**	***-51%***



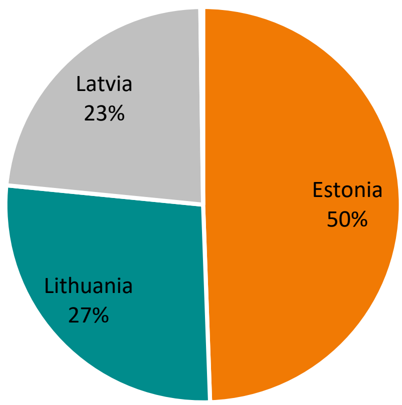
RETAIL

In 2020 retail revenue was 17.0 million euros i.e., 52% less than last year's comparative result.

Retail sales by markets

EUR million	2020	2019	+/-
Estonia	8.4	16.7	*-50%*
Lithuania	4.6	9.7	*-53%*
Latvia	3.9	8.9	*-56%*
Finland	0.0	0.2	*-81%*
Total	**17.0**	**35.6**	***-52%***

2020 Consolidated Annual Report (in thousands of euros)



Baltika Group's biggest retail market continues to be Estonia that increased its share a further 3% mainly due to second wave of COVID-19 that saw restrictions and store closures in the end of the year in Latvia and Lithuania, but not in Estonia. Latvia was the market which share reduced in 2020 while Lithuanian market share remained the same.

In 2020, sales revenue decreased in all three Baltic retail markets – Latvia by 56%, Lithuania by 53% and Estonia by 50%. Sales efficiency of the entire retail channel decreased by -41% compared to the previous year.

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

EUR/m2	2020	2019	+/-
Estonia	120	187	-36%
Lithuania	90	148	-39%
Latvia	116	195	-41%
Finland	54	70	-23%
Total	**109**	**183**	**-41%**

STORES AND SALES AREA

At the end of 2020 Baltika Group had 61 stores in three countries with total sales area of 14,869 m^2. Retail network decreased in all Baltics markets. In 2020, the number of stores in Lithuania decreased by 9, in Estonia by 8 and in Latvia by 3.

Stores by markets

	31 December 2020	31 December 2019	Average area change*
Estonia	25	33	-6%
Lithuania	20	29	-10%
Latvia	16	19	-9%
Finland	0	1	-68%
Total stores	**61**	**82**	0%
Total sales area, sqm	**14 869**	**16 467**	**-10%**

E-STORE SALES

In 2020, Baltika Group's online store Andmorefashion.com increased its sales by 4% and was 2.2 million euros. 2020 can be considered as a mainly successful year for Baltika Group's e-commerce business, though the year is largely incomparable to its predecessor. This is mainly due to the decrease in brands sold by Baltika Groups' e-commerce, dropping from 5 brands to 3 brands. When comparing total sales of both years back-to-back, the total increase in net sales was 4% and total profit earned 1%. However, when comparing the same brands that remained in 2020 to their corresponding sales numbers in 2019, the increase in net sales is 49% and the increase in gross profit earned 53%.

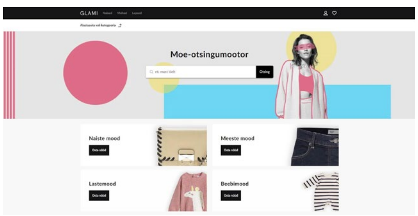
2020 was a highly contrasting year for Baltika Group's e-store. The year began with a small decrease in sales but increased after the beginning of the COVID lockdown in Q2. As such, Q2 saw an increase in total sales as well as profit earned in e-commerce. However, as the activities in Q2 had to be very campaign-centric (as clothing was not a priority for most people during the beginning of the COVID crisis) and feature heavy markdowns, the average markdown given away for our products went up by 8% compared to Q2 2019. As Q2 was rather incomparable to the rest of the time, Q4 can be considered one of the most successful periods of the entire year. On one hand Baltika Group's e-commerce sales grew by 41% (comparing the remaining brands), on the other hand, the average markdown was steadily low during the entire quarter, meaning that the increase in gross profit was relatively high.

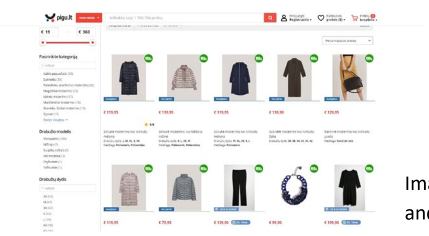
2020 was also a transitional year for Andmorefashion, Baltika Group's overlapping e-commerce brand. As the beginning of 2021 saw the closure of Andmorefashion and the launch of Monton & Ivo Nikkolo e-stores, certain activities were already undertaken in 2020 to ensure the smoother transition from one e-commerce brand to brand-specific e-stores. Such activities included switching social media communication and advertising from Andmorefashion to brand-specific social media pages, having customer support representatives use @ivonikkolo.ee/@monton.ee e-mail addresses instead of @andmorefashion.com etc. The main goal for 2020 was to ensure the successful launch of the brand-specific e-stores, so 2021 can focus more heavily on increasing the total turnover of e-commerce.

Overall, Andmorefashion hosted 1 159 787 users who generated 3 350 942 visits during the span of the entire year. Most visitors (85%) originated from the Baltics. 28 435 users originated from the US; however a lot of bot-traffic is often attributed to the US, hence this metric may not be fully accurate. The average age of Andmorefashion's core users was 25-34; 2020 also saw an increase in the age group of 18-24 (from 4% to 7.5% of total users). Most users are female, making up 77.3% of the total audience, which is a 1.1% increase compared to 2019. 2020 also saw the significance of mobile devices become more prevalent, as the total share of mobile devices went from 51% to 62%.

In terms of traffic acquisition, Andmorefashion generated most visits via organic search engines, similarly to last year. However, the significance of online advertising became more prevalent in 2020, as traffic from display ads increased by 187%. Paid search traffic decreased by 43% due to certain less profitable campaigns being cancelled. E-mail traffic rose by 15%.

Various marketplace and search engine cooperation's started in the end of the year. Although the revenues driven through these channels were marginal in 2020, as most of the time and effort went into the technical implementation and verification. In total, revenue made through these channels amounted to 2% of the total revenue (to compare, January 2021 alone increased the same figure already to 7%).





Images: Marketplaces Glami and Pigu

Changes in loyalty programme

The loyal customer programme AndMore, covering all the brands in stores and the e-store, has been in use since 2014. In 2020, several changes in the programme were made to build customer loyalty further through value creation for the future. A rewards programme, as AndMore programme had been since, was not considered to be sustainable, appealing, and engaging on its own. Therefore, AndMore bonus programme was renamed AndMore loyalty programme instead.
Until December 2020 customers could earn 5%, 7% or 10% bonuses, depending on their customer level determined by the rolling 12-months purchase volume. Even though since December 2020 customers will not be earing bonus euros, they will still benefit from certain unique offers:

- exclusive information on upcoming collections and offers
- 30-day free return policy in stores and e-store
- customized birthday offer

As the end of 2020, 594,884 people had joined the loyalty programme, including 17,770 people who joined in 2020. 13,950 people out of 17,770 new loyal customers made at least one purchase. The purchase volume of loyal customers is around 67% of Baltika Group’s total retail sales in the Baltic region. 33% respectively is the purchase volume of anonymous customers. In e-store, the purchase volume of loyal customers is slightly higher – around 72%. Around 80% of the loyal customers are women in age group 30–50.

OPERATING EXPENSES AND PROFIT

Baltika Group's gross profit margin for 2020 was 49.7%, which is 1.3 percentage points higher than last year (2019: 48.4%). In 2020, revenue decreased by -51% and gross profit by -50%. The company's gross profit was 9,676 thousand euros, which is 9,515 thousand euros less than the comparable result of the previous year (2019: 19,191 thousand euros).

Baltika Group's distribution and administrative expenses decreased during a year by 7,673 thousand euros to 9,676 thousand euros (2019: 19,191 thousand euros). 2,571 thousand euros (-38% vs 2019) was contributed by the decrease of recurring fixed costs in Baltika Group's head office. Restructuring started in 2019 got a further speed up with the reorganisation plan and hence the reduction is bigger than the planned amount. In October 2020 AS Baltika moved to a smaller head-quarter and in the middle of 2021 Baltika is planning to start using warehouse services instead of using its current, hence the expenses are expected to decrease in 2021.

Other operating income of 2020 in the amount of 5,442 thousand euros is mainly due to 4,585 thousand euros connected with restructuring of creditors' claims in accordance to the restructuring plan approved on June 19, 2020 and the reversal of the impairment of the right to use the property arising from the lease agreements for the production buildings in the amount of 1,320 thousand euros. Year end includes the reserve expense made for closing stores in 2021 in the amount of 230 thousand euros.

Yearly net financial expense was 761 thousand euros and tax expense 147 thousand euros due to change in deferred tax reserve in the amount of 140 thousand euros.

Baltika Group finished the turbulent year of COVID-19 and starting official legal reorganisation with 377 thousand euros net loss.

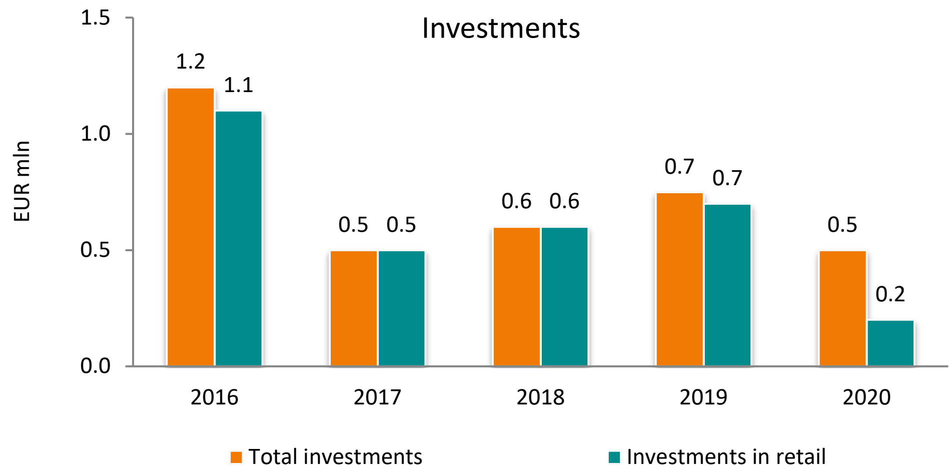
FINANCIAL POSITION

As at 31 December 2020, Baltika Group's cash and cash equivalents amounted to 1,427 thousand euros (264 thousand euros as at 31 December 2019) . This shows the financial stability of the company as in the same time the AS Baltika bank overdraft with limit of 3,000 thousand euros has not been used.

As at 31 December 2020, Baltika Group's trade receivables and other receivables amounted to 318 thousand euros, decreasing by 303 thousand euros compared to the end of the previous year. The decrease is owing to the fact that AS Baltika is gradually exiting business customers´sales channel as part of Baltika Group's ongoing restructuring plan.

At the end of the year, the Group's inventories totalled 3,467 thousand euros, decreasing by 4,177 thousand euros, i.e. 55% compared to the end of the previous year. The biggest decrease comes from finished goods and goods purchased for retail in the amount of 3,406 thousand euros. Baltika Group has taken a pro-active stance in current volatile market situation and made sure that there is no over-stocking, the more with the planned decrease in number of stores.

Fixed assets were acquired in 2020 for 503 thousand euros and depreciation was 699 thousand euros. The residual value of fixed assets has decreased by 404 thousand euros compared to the end of the previous year and was 1,815 thousand euros.



Right of use assets net book value as at 31 December 2020 amounted to 9,216 thousand euros. The assets have decreased by 8,563 thousand euros compared to year end, whereby 5,252 thousand euros relates to depreciation, 3,706 thousand euros is finished contracts with majority being related to production rent contracts finishing through restructuring and new contracts in the amount of 1,713 thousand euros.

As at 31 December 2020, the total debt was 10,341 thousand euros, which together with the change in overdraft means a decrease in debt compared to the end of the previous year (31.12.2019: 19,988 thousand euros) by 9,657 thousand euros. The decrease in the Group's debt is mostly related to the restructuring of creditors' claims arising from the reorganization plan and in connection with which the lease liability of the assets of the production units located in Estonia was reduced. The other reason is that as at 31 December 2020 AS Baltika is not using its bank overdraft (990 thousand euros used as at previous year-end).

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.

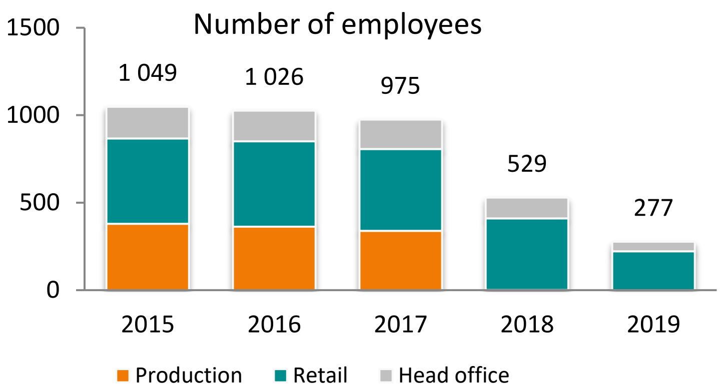
As at 31 December 2020 the Group equity is 2,712 thousand euros. While subordinated loan decreased due to reorganisation plan in line with other liabilities, then with the new amounts allocated to subordinated loan at the end of the year the reserves amount to 3,931 thousand euros and hence the equity meets the Commercial Code requirement of 50% from share capital.

CASH FLOWS

Baltika Group's cash flow from operating activities in 2020 was 4,861 thousand euros that is similar level to previous year (2019: 4,817 thousand euros). Like previous year most of the positive cash-flow came from reducing the level of inventory. 503 thousand euros (2019: 700 thousand euros) from the cash flows of financing activities were invested into fixed assets. 3,550 thousand euros loans were received in 2020, previous year end overdraft balance was repaid and rental costs paid. The Group finished the year with a very strong financial position of having 1,427 thousand euros cash and cash equivalents.

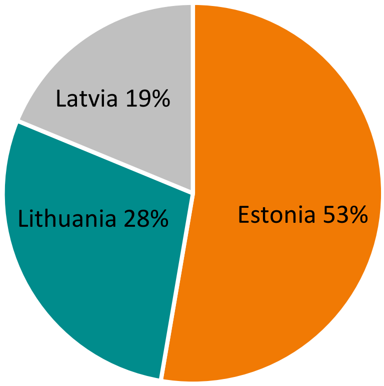
PEOPLE

As at 31 December 2020 Baltika Group employed 277 people that is 252 people less than as at 31 December 2019 (529). Due to reduction of numbers of store but also number of people in market office retail staff decreased by 185 people. With the restructuring that speed up with reorganisation the head-office staff reduces over the year by 67 people.



Baltika Group employees’ remuneration expense in 2020 amounted to 6,198 thousand euros (2019: 10,555 thousand euros). The accrued remuneration of the member of the Supervisory Board and Management Board totalled 289 thousand euros (2019: 497 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 2020



OUTLOOK AND OBJECTIVES FOR 2021

Economic environment

In the end of 2020 Eesti Pank forecasted Estonian economy to recover from the crisis in 2021 and to return to where it was before the crisis in the second half of 2021. The outlook for the Estonian economy is uncertain though, as the pandemic remains impossible to predict despite the hopeful news about vaccines, and the developments in the economy may differ substantially from expectations. The economy will contract by 2.5% in year. This was a much softer decline than was feared when the coronavirus crisis erupted, and is also one of the smallest in Europe. The relatively gentle blow means that exiting the crisis will be easier. If vaccination succeeds and the spread of the virus can be brought under control in first half of next year, the economy will start growing again in the second quarter of next year and GDP will grow by 2.9% in 2021.

The rapid bounce back of the economy in the third quarter of this year demonstrated that it is able to grow rapidly once restrictions are removed. If the vaccination puts a stop to the pandemic soon enough, the coronavirus crisis will not have caused lasting harm to the economy, which will return to its growth track that was forecast before the crisis by 2022. Businesses have a lot of resources standing unused and the lending conditions of the banks remain favourable. A broad budget stimulus and the pension savings that can be used for consumption after the elimination of the mandatory second pension pillar will temporarily reinvigorate demand and consequently economic activity during the forecast horizon.

The flexible labour market means that employment has dropped sharply, and assistance will need to be directed to the unemployed. Although the recession in Estonia has so far been one of the smallest, the employment level has fallen more in Estonia than in most of the European countries. The labour market is flexible by international standards and this allowed employment to adjust rapidly to the new circumstances in spring and summer already, evidence for which is that the ending of the wage subsidy was not followed by a wave of redundancies, and the number of redundancies did not rise in October and November either. The unemployment rate will still rise because of the second wave of the virus, and it will peak in early 2021 at a little above 10%, falling back to close to 7% by 2023.

The outlook for the Estonian economy is uncertain. Although news of the vaccine has increased hope of a rapid exit from the crisis, the forecast continues to be surrounded by a great deal of uncertainty because the path of the virus and the restrictions imposed because of it and their impact on the economy can vary widely from expectations. Although the base scenario of the forecast is that the economy will grow by 2.9% next year, the negative scenario is that it could shrink by a further 1.8% next year. The wide spread of these forecasts is closely connected to the outlook for the euro area, where growth in 2021 is forecast to be between 0.4% and 6%. The major lack of clarity about foreign demand makes the outlook for the Estonian economy uncertain as well.

European Commission forecasts for Latvia that GDP growth is to rebound in 2021, reaching 3.5%. In the first half of the year, the recovery will be relatively limited as the restrictive measures are expected to be lifted only gradually. However, the extension of income support programmes should help the economy maintain activity at around the same level as at the end of 2020. A much more significant easing of restrictions will be possible, once the level of vaccination coverage reaches a substantial part of population towards the end of summer. This is expected to provide a strong short-term boost to growth as restricted parts of the economy reopen. Overall, GDP growth in 2022 is expected to reach 3.1% with the largest contribution to growth coming from private consumption and exports. Future spending related to the Recovery and Resilience Facility is not included in this forecast and constitutes an upside risk.

In Lithuania measures to contain the pandemic are assumed to be only gradually lifted in 2021, European Commission economic growth is forecast to remain subdued in the first half of the year. From the third quarter onwards, however, pent-up demand combined with continued wage growth are projected to boost private consumption. At the same time, public investment is set to contribute to the recovery in 2021, while private investment is expected to follow with a lag. Overall, real GDP in Lithuania is forecast to grow by 2.2% in 2021 and then by 3.1% in 2022. This forecast does not include any measures expected to be funded under the Recovery and Resilience Facility, posing an upside risk to the growth projections.

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

Baltika Group

The main goal for 2021 is to remain financially stable and finalise the organisational restructuring started in 2019. The main parts of action plan are:

- **Maintain financial stability**
  Protect cashflows especially during first and second quarter of the year 2021 due to Latvian, Lithuanian and Estonian stores being closed and also some restrictions in Estonia: keep costs under control, negotiate that store closure losses would be shared with shopping centers and carefully manage stock position.
- **Reduce operational costs**
  Further reduce the operational costs by 3.0 million euros compared to 2020. This should come from both retail costs in line with closing of stores, but also from head-office expense where fixed costs achieved in the end of the year should not increase and further improvement should be obtained with warehouse service to be bought in matching the volume requirements.
- **Successfully launch new Ivo Nikkolo collection**
  Launch a modernised and more youthful Ivo Nikkolo collection in second half of 2021. The success and right direction will be seen based on customer feedback – sales per m2. One part of success should be also good feedback for quality accessories that are there already from spring 2021.
- **Increase e-com sales**
  To increase e-com sales with commercial partnerships and to invest into a new e-com platform by the end of the year, more agile and easy, capable to deliver a unique user experience to all our customers, allowing our Group to explore other markets also on our own. E-com sales should become at least 15% from our total turnover.
- **Improve customer experience**
  To invest in our people to increase our capabilities and to train our store staff to deliver a very consistent unique off-line customer experience to all our customers.

2020 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 and inclusion. We value transparency and authenticity in our dealings with people.

At 31 December 2020, Baltika Group employed 277 people, which is 252 persons less than on 31 December 2019 (529). In total, 225 people worked in our retail organization (31 December 2019: 408) and 52 at the headquarters and the logistics centre (31 December 2019: 119).

The number of people working in the markets were distributed as follows: 146 in Estonia (31.12.2019: 279), 52 in Latvia (31.12.2019: 104) and 79 in Lithuania (31.12.2019: 139). In April 2020, Baltika Group closed its brick & mortar store operations in Finland, which reduced the number of employees there from 4 to 0 (31.12.2019: 5).

The personnel of Baltika Group in 2020 consisted of:

- 4% men and 96% women;
- 41,9 years is the average age in Baltika Group;
- The average length of service in Baltika Group is 8,7 years;
- People of 7 different nationalities work at Baltika Group.

Baltika Group's personnel by units and markets

	Personnel 31 Dec 2020	%	Men	Men (%)	Women	Women (%)	Started working in 2020	Left during 2020
AS Baltika	52	18,8%	10	3,6%	42	15,2%	12	83
Baltman OÜ, wherein	225	81,2%	2	0,7%	223	80,5%	62	250
Estonia	94	41,8%	0	0,0%	94	33,9%	29	101
Latvia	52	23,1%	2	0,7%	50	18,1%	24	75
Lithuania	79	35,1%	0	0,0%	79	28,5%	9	74
Baltika Group	**277**	**100%**	**12**	**4,3%**	**265**	**95,7%**	**74**	**333**

Changes in the organizational structure related to COVID-19 and the restructuring plan

In 2021, Baltika Group staff decreased by almost 40% compared to the previous year partly due to planned cuts connected to the restructuring plan and partly to the COVID-19 pandemic, which caused the Group's brick & mortar stores to be temporarily closed or minimally staffed for up to 6 months across our three markets.

The Baltika Group Management Board changed its two members as first Mae Leyrer, the interim Chairperson of the Management Board was replaced by Flavio Perini, who joined on May 1, 2020. In addition, Triinu Tarkin, previously a Financial Manager at Baltika Group, re-joined the company as CFO from October and subsequently the Management Board from December 1, 2020.

The Management Board focused on building a financially stable and sustainable future for the company and its staff, continuing the organizational changes started in 2019. The decision to continue with only one ladies-wear brand Ivo Nikkolo was made and that initiated the need to gradually phase out the two other remaining brands – Monton and Baltman. This meant teams of people who previously worked on these brands were left redundant and by October 2020 Baltika Group had one new and powerful design and product development team, led by new Head Designer of Ivo Nikkolo Margot Vaaderpass who joined AS Baltika in October.

Hand in hand with brand restructuring, Baltika Group's store operations optimization continued across the Baltic markets and many Market office jobs were optimized because of reduced volume of work due to store closings. Overall 20 stores were closed (8 in Estonia; 3 in Latvia; 9 in Lithuania) in 2020, a process which continues in 2021. Market Director positions were cancelled and marketing, IT and maintenance functions were outsourced as much as possible. From early summer 2020, all Market Retail organizations are led by Regional Retail Directors with strong sales backgrounds.

In March 2020, as COVID-19 related state-wide lockdowns were implemented in all Baltika Group's target markets. Workloads had to be optimised, placing many office people on up to 95% less workload and most store staff faced an uncertain future with no job to go to until further notice. Across all markets 96% people in all were affected by partial or full downtime, which lasted 1,5 – 6 months. As cash flow suffered severely, redundancies continued, as well as voluntary terminations.

Baltika Group´s stores in Estonia were closed from March 27, 2020 to May 10, 2020. Latvian stores were closed only on weekends from March 28, 2020 to June 9, 2020 and additionally from November 14, 2020 until on December 19, 2020 Latvian Shopping Centres went to full lockdown. Lithuanian stores were closed for the first time from March 26, 2020 to April 24, 2020 and second time from December 16, 2020.

As all Baltic States provided some aid for businesses affected by COVID-19 related restrictions and lockdowns, Baltika Group entities applied for and received salary subsidies during both waves of the pandemic. The aid helped avoid unnecessary lay-offs and helped ensure business continuity.

Employee satisfaction and motivation

Photo: Lurich building

In 2020, the entire Baltika Group headquarter, and its people moved from their traditional Baltika Quarter office location to a new office building in Ülemiste City. The Lurich building provided many contemporary comforts, but also reduced the space from over 3000m2 to 583m2. While the team size had also been reduced by over 40% and some functions like archiving had been outsourced to save room, there are still space requirements for example in the design process that need adjusting. In the new office, Baltika Group continued to foster opportunities for employees to shape their work rhythm and focus environment, working practices and opportunities for working remotely. Baltika Group put more emphasis on providing better options for flexible working – digital communication, technological solutions and cloud based co-working options were embraced.

Baltika Group also reduced the number of approvals and meetings required to launch and steer projects. This coincided with a 100% staff change in the People & HR team and all administrative and HR internal processes were taken under review to ensure they serve a much smaller, leaner and faster organization, a process that will continue well into 2021.

In Baltika Group's retail organization, projects were initiated to increase the store staff competencies and service level, which will be achieved through focused recruitment efforts and execution of an extensive Learning & Development strategy.

Baltika Group as an employer

In 2020 the focus was on survival as an employer, many long-term traditions had to be cut or put on hold to keep the business going. This provided a fairly "tabula rasa" situation for 2021 with ability to build new traditions that are future proof and speak to a new generation of employees that are about the enter the company. In 2021 new Ivo Nikkolo brand values will be put into action throughout the organization building a new normality together out of the ashes of COVID-19.

Baltika Group valued and kept these important behaviours alive in 2020:

- the importance of spending time together - anniversaries and birthdays celebrated together;
- longtime employees are recognized;
- work-life balance is encouraged - employees are offered extra vacation days based on their seniority;
- including employees in what happens in their workplace – ad hoc and regular Your Voice @ Baltika surveys as well as open discussions and workshops;
- embracing diversity - looking for ways to support differences and hire accordingly.

2020 was a fresh start in many ways, including our company and management culture, people policies and the way we view cooperation. 2021 will focus on codifying some of these and leaving others to settle and grow organically. Our store network will go through a thorough refresh as role descriptions are updated to reflect our new values and goals and store-by-store development plans are put in place.

CUSTOMER EXPERIENCE MANAGMENT

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

- Customer communication, marketing and advertising activities are based on the internal activity guidelines agreed in the group.
- Baltika Group complies with all the norms established by law in its home markets.

In 2020, several actions were taken to provide and put even more focus on omnichannel customer communication in the pandemic situation and later in 2020 to explain Group's strategic decisions concerning store closures and future strategy of the Group's brands.

- In spring 2020 Monton and Mosaic brands were merged. The merging process between two mainstream womenswear brands included several activities on a physical store and e-store level and in customer communication as the client bases of the brands were merged. At the final stage of the project all Baltika Group's employees attended a training covering in detail the whole process and its potential outcomes,
- In 2020 we renovated 2 stores: Šiauliai Akropolis Monton and Tartu Lõunakeskus Monton after merging Monton and Mosaic brands which previously had two separate stores located in Lõunakeskus,
- Customer engagement into collection creation process continued, although was put on a pause in March. In addition to retrospective feedback, information was collected from customers about their opinion on different colors, prints for Monton and at a later stage accessories as a key component of the new Ivo Nikkolo brand,
- In autumn 2020 Baltika Group started cooperation with a partner agency, Schwitzke, in order to create a new Ivo Nikkolo brand, store concept and customer experience,

- An extensive survey in the Baltics, Poland and Ukraine was conducted by Schwitzke to investigate the client of the future Ivo Nikkolo and her expectations for a clothing brand and omnichannel customer experience,
- As a result of the survey, the new Ivo Nikkolo client profile and customer personas were selected in detail,
- To ensure unified customer experience across retail markets, cooperation between Baltika Group Sales, Marketing and Retail Organizations was strengthened even further to ensure that the sales organization is better trained and involved in developing the customer experience.

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 engaged in the development of the fashion and clothes industry and the creative industry community for years. 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. In addition, in 2020 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.

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.

Photo: Monton Zero Waste collection

In 2020 the Monton Zero Waste collection was launched in cooperation with the students of Estonian Academy of Arts. The idea of the cooperation was to create environmental-friendly yet stylish and trendy collection. Zero Waste – products with no fabric waste – is one of Monton's ways to reduce the harmful impact of the textile industry on environment.

Baltika Group supported various activities in 2020 to inspire and recognise a new generation of fashion designers. Those fashion events such as the fashion show 'Pink Scissors' of Rocca Al Mare School etc.

Due to COVID-19 pandemic and the Group's strategic decision to move forward with one womenswear brand, the amount of sponsorship projects was heavily reduced in 2020 both on Group's level as well as on retail markets.

Sponsorship on Baltika Group's retail markets

Until 2020 Baltika Group's retail markets have chosen sponsorship projects mostly for Monton and Baltman brands. Due to pandemic and overall financial situation, there was a significant cut on budgets allocated for local sponsorships and a common decision to focus mainly on Monton's sponsorship projects.

Monton

Monton has supported the Estonian Olympic Committee since 2004, as 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, Rio de Janeiro and PyeongChang. As 2020 Tokyo Summer Olympics was postponed to 2021, the project was put on hold and will be finalized in 2021.

Photo: B/C Kalev Cramo Head Coach Roberts Štelmahers

Already since 2006, Baltika Group has been sponsoring the Estonian national football team. 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.

In 2020, Monton continued a long-term partnership with BC Kalev Cramo. Until 2019 BC Kalev Cramo players and coaches had been wearing Mosaic. In 2020 the project continued with Monton as Monton and Mosaic were merged into one brand. Team players and coaches wear Monton suits in race tours and other formal events.

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.

MANAGEMENT OF ENVIRONMENTAL IMPACTS

General management of environmental aspects

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

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

SUPPLY CHAIN MANAGEMENT

Baltika Group 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. 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 number of defective products.

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

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.

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

From the 2021 Ivo Nikkolo clothing collections will have 40% of the selected materials eco-friendly -such as organic cotton, 100% viscose or ecovero viscose, 100% wool, recycled cashmere. We are using eco-friendly filling in its collections called as Sorona instead of down feathers. Ivo Nikkolo has always valued quality and has invested heavily in design that lasts for a long time, provide high and durable quality. The factories' green production programs are very comprehensive and are being updated year by year. In addition, accessories collection chosen materials are natural as leather, wool, cotton, silk, cashmere, and viscose, offering the best comfort and fit. Our partners are using leather which is approved with Gold Standard from Leather Working Group.

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

- Ivo Nikkolo paper hangtags are made from recycled paper;
- Baltika Group does not usually purchase transport packages itself, but reuses packing cases brought to the company by suppliers instead. For suppliers, the guidelines regarding packages are described in the Supplier Manual;
- 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 is important as well. Overview of inventories is available: 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 2020 there were no registered corruption cases, fair trade or ethics or any other similar violation in Baltika Group.

BALTIKA SHARE

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

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

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

Information on listed ordinary shares

NASDAQ symbol: BLT1T
ISIN number: EE3100145616
Minimum number of shares to trade: 1
Number of shares: 54,079,485
Nominal value of a share: 0.1 euros
Votes per share: 1

Share price and trading

In 2020 the price of the Baltika share increased by 204% to 0.41 euros, the Group's year-end market capitalisation was 22.2 million euros. During the same period, the OMX Tallinn All-Share Index increased by 5%.

Share trading history

EUR	2016	2017	2018	2019	2020
High	0.35	0.33	0.28	1.00	0.544
Low	0.24	0.25	0.16	0.10	0.08
Average	0.29	0.29	0.22	0.55	0.18
Year-end price	0.28	0.25	0.16	0.14	0.41
Change, %	-18%	-10%	-36%	-16%	+204%
Traded volume	2,580,854	2,607,312	5,597,022	5,116,639	3,315,068
Turnover, in millions	0.77	0.75	1.04	0.86	0.61

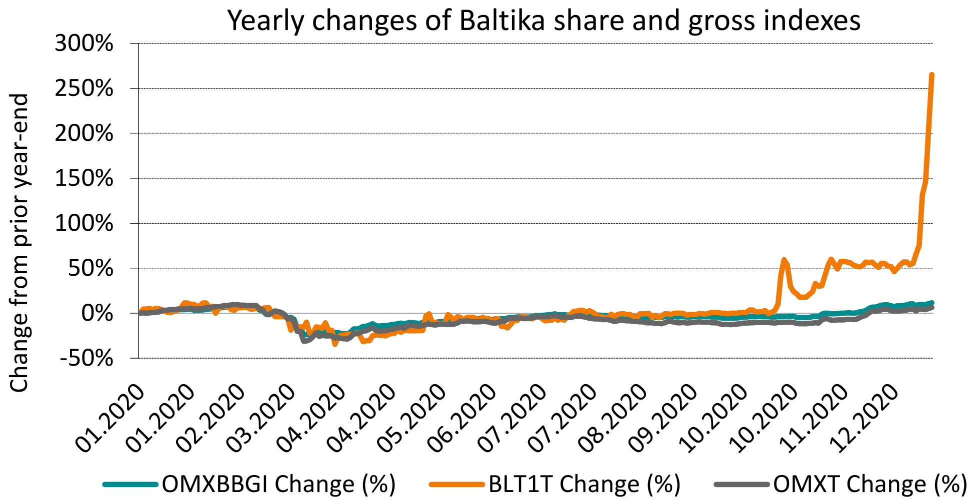
2020 Consolidated Annual Report (in thousands of euros)

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 2021 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



Shareholders structure

At the end of 2020, AS Baltika had 2,130 shareholders. The number of shareholders increased by 492 during the year.

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

Largest shareholders as at 31 December 2020	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	265 836	0,49%
Kaima Capital Eesti OÜ	231 578	0,43%
Tarmo Kõiv	181 265	0,34%
ZINA KEVVAI	132 000	0,24%
SWEDBANK AS, LATVIA	123 297	0,23%
Others	2 250 868	4,17%
Total	**54 079 485**	**100%**

2020 Consolidated Annual Report (in thousands of euros)

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

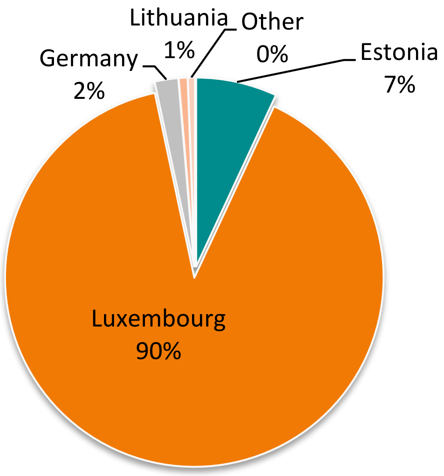
Shareholder structure by shareholder type as at 31 December 2020

	Number of shares	Holding
Legal persons	52 255 649	96,63%
Individuals	1 823 836	3,37%
Total	**54 079 485**	**100%**

Shareholder structure by size of holding as at 31 December 2020

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	1	0,05%	48 526 500	89,73%
1,0 - 10,0%	2	0,09%	2 368 141	4,38%
0,1 - 1,0%	9	0,42%	1 214 865	2,25%
< 0,1%	2 118	99,44%	1 969 979	3,64%
Total	**2 130**	**100%**	**54 079 485**	**100%**

Shareholder structure by country at 31 December 2020



Share capital

Baltika share capital was 5,407,949 euros throughout 2020.

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
31.12.2016				**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	

2020 Consolidated Annual Report (in thousands of euros)

06.05.2019	Exchange of shares			**-36,715,365**	**-36,715**	
22.05.2019				**4,079,485**	**4,079**	**0**
27.05.2019	Decrease of share nominal value				-3,671	
15.08.2019				**4,079,485**	**408**	**0**
16.08.2019	Share Emission	5,000,000	50,000,000	50,000,000	5,000	**0**
31.12.2019				**54,079,485**	**5,408**	**0**
31.12.2020				**54,079,485**	**5,408**	**0**

Dividends

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

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

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

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

Baltika Group ended 2020 with a consolidated net loss of 0.4 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.

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

CGC Article 1.3.2.

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

AS Baltika did not follow this recommendation in 2020 due to the COVID-19 pandemic. Annual general meeting was held without convening the meeting and therefore neither Management Board, Supervisory Board, nor auditors were present.

CGC Article 1.3.3.

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

AS Baltika held its Annual General Meeting with voting period 10-16 August without convening the meeting, therefore the main means of voting was of communication equipment, although the alternative to vote at the premises of AS Baltika was available too. All voters used the means of communication equipment (e-mails with digitally signed voting ballots).

CGC Article 1.3.4.

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

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

CGC Article 2.2.7.

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

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, AS Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, AS Baltika discloses the total amount of remuneration expense to members of the Supervisory Board and Management Board in the management report section of its interim and annual reports. In 2020, the figure amounted to 0.3 million euros. The contractual severance benefits of members of the Management Board are 0 and 3 fold monthly remuneration depending on person due to service until becoming Management Board Member. The Chairman of the Management Board performance pay is depending on EBITDA with pre-condition that the company operating result is a profit. Member of Management Board performance pay is based on personal targets and the Group net result being a profit, with precondition also for payment if reaching personal targets being net profit. Baltika Group discloses the total amount of remuneration expense to the members of the Management Board in Note 26 of the Annual Report. Share option program that was approved on January 19, 2021 by General Meeting of Shareholders was issued to the Chairman of the Management Board.

CGC Article 3.2.5.

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

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

CGC Article 3.3.2.

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

In 2020 nor 2019 no conflicts of interests occurred.

CGC Article 5.6.

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

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

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

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with AS Baltika's Articles of Association, the auditor(s) is (are) appointed by the General Meeting of shareholders for the performance of a single audit or for a specific term. The Annual General Meeting which was held without convening the meeting resolved on August 16, 2020 to AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2020. Independent Auditor's Report of 2020 will be signed by certified auditor in charge Eva Jansen-Diener. The audit firm is chosen based on the received offer with the best quality-price ratio –the auditor's independence is ensured by following rotation rules applicable to listed entities in EU.

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

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

Subsection §24² (4) of the Accounting Act

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

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

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

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

General meeting

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

Year 2020 was here an exception where due to COVID-19 and reorganisation the publication of Annual accounts was postponed and therefore also Annual General Meeting. The Annual General meeting was held without convening the meeting and voting took place August 10-16, 2020. The resolutions of the general meeting of shareholders were voted by 4 shareholders, whose shares represented 48,873,678 votes or 90.37 % of the total share capital. If a shareholder abstained, he/she was deemed to have voted against. The meeting approved the company's 2019 annual report, profit allocation proposal for 2019, recalling of a member of the Supervisory Board, nomination of AS PricewaterhouseCoopers as the auditor.

Shareholders with significant share of AS Baltika's ordinary shares at the end of 2020 and 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 2020.

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 convened without meeting resolved on August 16, 2020 to recall the member of the Supervisory Board Tiina Mõis.

Supervisory Board member Lauri Kustaa Äimä owns 231,578 ordinary shares of AS Baltika i.e. 0.4% as at the end of 2020.

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.

Supervisory Board of AS Baltika decided at the meeting on October 20, 2020 to appoint as new Audit Committee members Maigi Pärnik-Pernik and Marin Käärik-Anton.

The members of the audit committee are remunerated 150 euros per month for serving on the committee.

In 2020 the audit committee gathered for 2 separate meetings. On December 11, 2020 to discuss 2020 interim audit observations with representatives of the audit firm AS PricewaterhouseCoopers. Second meeting was held on 11 December with Baltika Group´s CFO to discuss the quarterly reporting process, budgeting and investment process and new accounting and reporting developments.

Information in public interest entities Management report regarding services from auditor

During 2020 the auditor of AS Baltika has not provided the Group with additional services.

Management Board

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

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

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

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

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

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

AS Baltika's management board has two members: Flavio Perini and Triinu Tarkin.

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

Baltika Group´s Supervisory Board elected Triinu Tarkin to the Management Board of AS Baltika.Triinu Tarkin´s mandate began from December 1, 2020 and lasts for the period of 3 years.

Triinu Tarkin has worked for AS Baltika from December 2011 on various positions in Finance department.

Triinu Tarkin has Bachelor's degree from Estonian Business School and Master's degree from Tallinn University of Technology. She has worked for audit and consulting company AS PricewaterhouseCoopers in Estonia and Australia in years 2005-2011. Triinu Tarkin 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.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2020 consolidated financial statements as presented on pages 40 to 89.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
3. the Group is going concern.

Flavio Perini
Chairman of the Management Board, CEO
24 March 2021

Triinu Tarkin
Member of the Management Board, CFO
24 March 2021

2020 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2020	31 December 2019
ASSETS			
Current assets			
Cash and cash equivalents	4	1,427	264
Trade and other receivables	5	318	621
Inventories	6	3,467	7,644
Assets classified as held for sale		0	28
Total current assets		**5,212**	**8,557**
Non-current assets			
Deferred income tax asset	7	140	281
Other non-current assets	8	111	222
Property, plant and equipment	9	1,218	1,683
Right-of-use assets	11	9,199	16,040
Intangible assets	10	597	536
Total non-current assets		**11,265**	**18,762**
TOTAL ASSETS		**16,477**	**27,319**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	252	1,731
Lease liabilities	11	3,127	5,383
Trade and other payables	13,14	3,019	4,118
Total current liabilities		**6,398**	**11,232**
Non-current liabilities			
Borrowings	12	874	488
Lease liabilities	11	6,493	12,396
Total non-current liabilities		**7,367**	**12,884**
TOTAL LIABILITIES		**13,765**	**24,116**
EQUITY			
Share capital at par value	15	5,408	5,408
Reserves	15	3,931	4,045
Retained earnings		-6,250	-341
Net loss for the period		-377	-5,909
TOTAL EQUITY		**2,712**	**3,203**
TOTAL LIABILITIES AND EQUITY		**16,477**	**27,319**

The Notes presented on pages 45-89 are an integral part of these consolidated Financial Statements.

2020 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note	2020	2019
Revenue	16,17	19,480	39,630
Client bonus provision	14,17	250	81
Revenue after client bonus provision		19,730	39,711
Cost of goods sold	18	-10,054	-20,520
Gross profit		**9,676**	**19,191**
Distribution costs	19	-12,234	-19,588
Administrative and general expenses	20	-2,353	-2,672
Impairment loss of trade receivables	5,8	0	-31
Other operating income (-expense)	22	5,442	-82
Impairment loss of rights-of-use assets	11	0	-1,330
Operating loss		**531**	**-4,512**
Finance costs	23	-761	-1,391
Loss before income tax		**-230**	**-5,903**
Income tax expense	24	-147	-6
Net loss for the period		**-377**	**-5,909**
Total comprehensive income loss for the period		**-377**	**-5,909**
Basic earnings per share from net loss for the period, EUR	25	-0.01	-0.16
Diluted earnings per share from net loss for the period, EUR	25	-0.01	-0.16

The Notes presented on pages 45-89 are an integral part of these consolidated Financial Statements.

2020 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2020	2019
Cash flows from operating activities			
Operating loss		531	-4,512
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	18,19,20,22	4,631	8,289
Gain (loss) from sale, impairment of PPE, non-current assets, net		130	-153
Other non-monetary adjustments		-3,770	-184
Changes in working capital:			
Change in trade and other receivables	5,7,8	414	264
Change in inventories	6	4,177	3,292
Change in trade and other payables	13	-1,099	-1,833
Interest paid and other financial expense		-120	-346
Net cash generated from operating activities		**4,894**	**4,817**
Cash flows from investing activities			
Acquisition of property, plant and equipment, intangibles	9,10	-503	-749
Proceeds from disposal of PPE		43	267
Net cash used in investing activities		**-460**	**-482**
Cash flows from financing activities			
Received borrowings	12	3,550	3,000
Repayments of borrowings	12	-116	-3,732
Change in bank overdraft	12	-990	-1,344
Prepayments of finance lease		-1	0
Prepayments of lease liabilities, principle	12	-5,096	-5,741
Repayments of lease liabilities, interest	12	-618	-837
Repayments of convertible bonds	12	0	-845
Proceeds from issues of shares	15	0	5,000
Net cash generated from (used in) financing activities		**-3,271**	**-4,499**
Total cash flows		**1,163**	**-164**
Cash and cash equivalents at the beginning of the period	4	**264**	**428**
Cash and cash equivalents at the end of the period	4	**1,427**	**264**
Change in cash and cash equivalents		**1,163**	**-164**

The Notes presented on pages 45-89 are an integral part of these consolidated Financial Statements.

2020 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
Balance as at 31 December 2018	**4,079**	**1,107**	**-5,119**	**67**
Loss for the period	0	0	-5,909	-5,909
Total comprehensive income	**0**	**0**	**-5,909**	**-5,909**
Reduction of the nominal value of the share	-3,671	-1,107	4,778	0
Increase of share capital	5,000	0	0	5,000
Other reserve	0	4,045	0	4,045
Balance as at 31 December 2019	**5,408**	**4,045**	**-6,250**	**3,203**
Profit for the period	0	0	-377	-377
Total comprehensive loss	**0**	**0**	**-377**	**-377**
Increase of subordinated loan	0	3,111	0	3,111
Reduction of subordinated loan	0	-3,225	0	-3,225
Balance as at 31 December 2020	**5,408**	**3,931**	**-6,627**	**2,712**

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

The Notes presented on pages 45-89 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, Baltman and Ivo Nikkolo. Baltika employs a vertically integrated business model, which means that it controls various stages of the fashion process: design, supply chain management, distribution/logistics, sales arrangements. As at 31 December 2020, Group had 61 Baltika's retail-stores in three markets - in the Baltics. As at 31 December 2020 Baltika Group employed 277 people (31 December 2019: 529).

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

AS Baltika (the Parent company) (registration number: 10144415, address: Valukoja 10, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2020 was operating in retail markets in Estonia, Latvia, Lithuania and at the start of the year still also in Finland.

The consolidated financial statements prepared for the financial year ended at 31 December 2020 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group): OY Baltinia 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 24 March 2021. 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 2020 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Adoption of New of Revised Standards and Interpretations

Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019.

Company income tax and deferred income tax

Reason for changing accounting policy is due to IAS 1 §41 "reason for the presentation of classification change". IFRS Interpretation Committee agenda decision regarding deferred tax related to investments in subsidiaries both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39-40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognized in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Deferred income tax is recognised in case of temporary differences between the Group's carrying amounts of assets and liabilities and their tax bases (the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes).

Pursuant to the laws of the Republic of Estonia, an enterprise's profit of the accounting year is not taxable in Estonia. The obligation to pay company income tax arises upon distribution of profit and it is recognised as an expense (in the profit or loss for the period) when dividends are declared. Due to the nature of the taxation system, no deferred income tax assets or liabilities arise in enterprises registered in Estonia, except for possible deferred income tax liabilities related to an enterprise's investments in subsidiaries, associate and joint undertaking, and branches.

Deferred income tax liability arises for the Group in countries where the enterprise's reporting year profit is taxable. For the Group, deferred income tax liability also arises in respect to investments in an Estonian and Latvian subsidiary and associate undertaking, except for if the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. Examples of taxable temporary reversal are the payment of dividends, the sale or liquidation of an investment, and other transactions.

The Group has control over the dividend policy of subsidiaries and is able to control the timing of the reversal of the temporary differences in respect to the relevant investment. If the parent company has decided not to distribute the subsidiary's profit in the foreseeable future, it does not recognise the deferred income tax liability. If the parent company assesses that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured to the extent of the planned dividend payment provided that as at the reporting date, there are sufficient funds to pay the dividend and owner's equity on account of which to distribute profit in foreseeable future.

The Group measures deferred income tax liability using the tax rates valid on the reporting date that are expected to apply to the taxable temporary differences of the period in which the temporary differences are expected to reverse.

In Estonia, the valid company income tax rate is 20 per cent (the payable tax amount is 20/80 of the net payment). From 2019, a lower tax rate is applied to regularly payable dividends – 14% (14/86 of the net payment). The lower tax rate can be applied every calendar year on dividend payments and other profit distributions to the extent that does not exceed the average amount of taxable paid dividends and other profit distributions of the previous three calendar years and taxable payments from the owner's equity.

Change in accounting policy is relevant for the Group, but as in accordance with Group internal dividend policy there are no dividends to be paid in foreseeable future then the change has no financial impact.

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.

COVID-19 Related Rent Concessions/ Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2020).

The amendment has an impact for the Group and 2020 Annual report accounting takes already into account the change.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01 January 2021, and which the Group has not early adopted.

Classification of liabilities as current or non/current – Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU). The Group assesses that there is no significant impact of application of the amendments to its financial statements.

Classification of liabilities as current or non/current, deferral of effective date– Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU). The 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 2020 and 31 December 2019 and during 2020, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

Impairment of financial assets

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

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

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

The Group measures loss allowances as follows:

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

Loans and receivables

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

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

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

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

Inventories

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets (excluding goodwill)

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

Trademarks and licenses

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

Computer software

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

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

Goodwill

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

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

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

Impairment of non-current assets

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

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

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

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

Leases

Group as a lessee

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

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

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

Initial measurement

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

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

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

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

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

To determine the incremental borrowing rate, the group:

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

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:
(a) fixed payments, less any lease incentives receivable;
(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example,

payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates. Some of Group’s lease contracts contain variable lease payments;
(c) amounts expected to be payable by the lessee under residual value guarantees;
(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent measurement

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

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

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

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

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

A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:
a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

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

Group has used the exemption provided in IFRS 16 42 A and 42 B, whereby modifications arising directly from COVID-19 pandemic and all the following conditions are met is not considered a lease modification.
(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
(c) there is no substantive change to other terms and conditions of the lease.

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

Payables to employees

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

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

Provisions and contingent liabilities

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

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

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

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

Financial liabilities

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

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

Offsetting

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

Share capital

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

Compound financial instruments

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

Other reserves

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

Revenue recognition

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

Retail sales

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

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2020 and 31.12.2019 there is no material guarantee provision. If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

E-commerce

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

Wholesale and franchise

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

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

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

Other

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

Financing component

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

Interest income and expenses

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

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

Segment reporting

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

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

Current and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by Estonian entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax of 20/80 of the amount paid out as dividends. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

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

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

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

Corporate income tax in other countries

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

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

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

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

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

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Corporate income tax rates

	2020	2019
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), estimation uncertainties and judgements made in relation to lease accounting (Note 11) and impairment testing of goodwill (Note 10).

Assessment of net realizable value of inventories (Note 6)

Upon valuation of inventories, the Management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 3,337 thousand euros as at 31 December 2020 and 6,865 thousand euros as at 31 December 2019). 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 0 thousand euros as at 31 December 2020 and 249 thousand euros as at 31 December 2019.

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

The calculation of leased assets and financial liabilities depends on the lease period. Baltika Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the

lease, it it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the renewal (e.g. lease term, location of the store, leasehold improvements, etc). The Group included the renewal period as part of the lease term of leases of buildings leased for retail operations where after considering a number of relevant factors the Group concluded that it is reasonably certain that the Group will exercise an extension option.
After the commencement date, Baltika Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (Note 11).
The Management has made the assumption that each leased asset is used for the period of its lease contract or less when there is the contractual possibility and agreed plan to stop using the leased premises earlier

Impairment testing of goodwill (Note 10)

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

NOTE 3 Financial risks

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

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

Market risk

Foreign exchange risk

In 2020 and 2019 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	2020	2019
USD (US dollar)	2.03%	-5.21%

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

Balance-sheet date rates	
USD (US dollar)	8.23%

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 2020 had been up to 6% higher (lower), the impact on the net loss for the year would have been +/-7 thousand euros (2019: higher (lower) +/-57 thousand euros).

The assessment of foreign exchange rate sensitivity to the 2019 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 2020	Impact 2019
Trade and other payables	-2	-57
Total	**-2**	**-57**

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 778 thousand euros at 31 December 2020 and 424 thousand euros at 31 December 2019 were subject to a floating 6-month interest rate based on Euribor (Note 12). Non-current borrowings in the amount of 0 thousand euros at 31 December 2020 were subject to a fixed interest rate (31 December 2019: 2,000 thousand euros). The remaining non-current borrowings at 31 December 2020 in the amount of 6,493 thousand euros and 12,396 thousand euros at 31 December 2019 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 2020, the 6-month Euribor decreased from -0.323% at the beginning of the year to the year end -0.532%. In the beginning of 2021, Euribor average has been -0.526%. Business analysts estimate that Euribor will not rise in 2021 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 10 thousand euros lower (2019: 35 thousand euros post-tax loss lower). If the floating interest rates had been 0.1 percentage point lower, the post-tax result for the year would have been 1 thousand euros higher (2019: 3 thousand euros post-tax result higher).

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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 2020	31 Dec 2019
A	1,381	175
B	12	19
Total (Note 4)	**1,393**	**194**

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

Receivables

As at 31 December 2020 the maximum exposure to credit risk from trade receivables (Note 5) amounted to 230 thousand euros (31 December 2019: 240 thousand euros) on a net basis after allowances.

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

Liquidity risk

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

The Group´s working capital is negative as at the end of the year as a result of the lease accounting. Due to IFRS 16 the next twelve months´ lease payments are recorded as short-term liabilities as of 31 December 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 receivables and purchase contracts. The unused limit of Group´s overdraft facilities as at 31 December 2020 was 3,000 thousand euros (31 December 2019: 2,010 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 as at 31 December 2020

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

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 (Note 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**

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

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

Operational risk

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

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

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

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

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

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

Effects of the coronavirus

The spread of 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. As at the date of issuance the report the restrictions regarding closing stores is in place till 31st March 2021 in Lithuania, 6th April 2021 in Latvia and 11th April 2021 in Estonia. 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 and 2021, 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 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.

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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.

Net gearing ratio

	31 Dec 2020	31 Dec 2019
Total borrowings (Note 12)	10,341	19,998
Cash and cash equivalents (Note 4)	-1,427	-264
Net debt	8,914	19,734
Total equity	2,712	3,203
Net gearing ratio	**329%**	**1,640%**

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 2020 and 31 December 2019.

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

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

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

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

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

NOTE 4 Cash and cash equivalents

	31 Dec 2020	31 Dec 2019
Cash at hand	34	70
Cash at bank and overnight deposits	1,393	194
Total	**1,427**	**264**

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All cash and cash equivalents are denominated in euros.

For additional information, see also Note 3.

NOTE 5 Trade and other receivables

	31 Dec 2020	31 Dec 2019
Trade receivables, net	230	240
Other prepaid expenses[1]	79	185
Tax prepayments and tax reclaims, thereof	1	121
Value added tax	1	121
Other current receivables[2]	8	75
Total	**318**	**621**

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

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**

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

As at 31 December 2020, the Group has recorded an allowance for doubtful receivables of 0 euros (31 December 2019: 14 thousand euros). The Group expects that the rest of the unimpaired not due and overdue balances will be recovered. Trade receivables allowance expense in 2020 was 0 euros (2019: 31 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.

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NOTE 6 Inventories

	31 Dec 2020	31 Dec 2019
Fabrics and accessories	53	369
Allowance for impairment of fabrics and accessories	-53	-120
Finished goods and goods purchased for resale	3,587	6,995
Allowance for impairment of finished goods and goods purchased for resale	-250	-130
Prepayments to suppliers	130	530
Total	**3,467**	**7,644**

In addition to the allowance for impairment of 250 thousand euros (2019: 130 thousand euros) to reduce finished goods and goods purchased for resale to net realizable value, the Group recognised 169 thousand euros during 2020 (2019: 128 thousand euros) as an expense for stock-take variances and inventory write offs. Allowance for impairment of fabrics and accessories in the amount of 53 thousand euros at 31 December 2020 and 120 thousand euros at 31 December 2019 is related to closing the production units in 2020. Impairment allowance and write-off costs were recognised in the statement of profit and loss online "Cost of goods sold".

NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2020

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

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 expense (Note 24)	**-6**

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

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

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The Group recognised deferred income tax assets in the statement of financial position as at 31 December 2020 and 2019 for subsidiary in Lithuania in respect of losses and other tax base differences that can be carried forward against future taxable income. Losses and other tax base differences can be used either for unlimited period in Lithuania to cover 70% of the year tax profit.

NOTE 8 Other non-current assets

	31 Dec 2020	31 Dec 2019
Non-current portion of lease prepayments[1]	111	222
Total other non-current assets	**111**	**222**

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

NOTE 9 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Pre-payments, PPE not in yet in use	Total
31 December 2018					
Acquisition cost	**2,988**	**4,688**	**4,855**	**0**	**12,531**
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**
Allowance of impairment of PPE	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**
Additions	126	64	109	35	334
Disposals	-17	-71	-67	0	-155
Reclassifications	40	0	0	-40	0
Depreciation charge	-317	-47	-280	0	-644
31 December 2020					
Acquisition cost	**2,384**	**937**	**3,703**	**0**	**7,024**
Accumulated depreciation	-1,794	-843	-3,169	0	-5,806
Net book amount	**590**	**94**	**534**	**0**	**1,218**

NOTE 10 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
31 December 2018					
Acquisition cost	**2,037**	**1,298**	**0**	**154**	**3,489**

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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**
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**
Additions	96	0	73	0	**169**
Disposals	-7	0	-46	0	**-53**
Amortisation charge	-23	-32	0	0	**-55**
31 December 2020					
Acquisition cost	**974**	**643**	**73**	**154**	**1,844**
Accumulated depreciation	-786	-461	0	0	-1,247
Net book amount	**188**	**182**	**73**	**154**	**597**

Trademarks with a net book value of 182 thousand euros included acquired trademark Ivo Nikkolo (31 December 2019: 214 thousand euros), which remaining amortization period is 6 years.

Impairment tests for goodwill

The carrying value of goodwill as at 31 December 2020 in the amount of 154 thousand euros (31 December 2019: 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 2020. 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	**2020**	**2019**
Carrying amount of goodwill	154	154
Growth in revenue[1]	2.0%	1.0%
Terminal growth rate[2]	1.7%	1.7%
Budgeted gross margin[3]	56%	55.9%
Discount rate[4]	10.2%	10.2%
Difference between recoverable and carrying amount	4,826	13,530

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

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

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

If the average annual growth in sales efficiency (sales per m^2) were -5.0% the recoverable amount would have been equal to the carrying amount (31 December 2019: -4.2%). If the average annual gross profit margin was 46,4% the recoverable amount would have been equal to the carrying amount (31 December 2019: 43.5%).

NOTE 11 Leases

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

Amounts recognised in the balance sheet

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

	Right-of-use assets		
	Offices	**Commercial premises**	**Total**
1 January 2020			
Net book amount	**1,588**	**14,452**	**16,040**
Additions	578	1,135	1,713
Termination of lease contracts	-2,289	-1,013	-3,302
Depreciation charge	-866	-4,386	-5,252
Reclassification	1,703	-1,703	0
Net book amount 31.12.2020	**714**	**8,485**	**9,199**

The impairment allowance in amount of 1,330 thousand euros recognised in the statement of profit and loss in 2019 was reversed in 2020 and recognized as a reduction of the impairment losses in the statement of profit and loss on line "Other operating income (-expense)".

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

	31 Dec 2020	**31 Dec 2019**
Lease liabilities		
Current	3,127	5,383
Non-current	6,493	12,396
Total lease liabilities	**9,620**	**17,779**

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.

	2020	**2019**

Interest expense (included in finance cost, Note 23)	618	837
Expense relating to short-term leases (included in operating expenses, Notes 18-20)	-1,270	484
Depreciation charge for right-of use assets (included in operating expenses, Notes 18-20)	5,252	6,150
Expense relating to leases of low-value assets (included in operating expenses, Notes 18-20)	85	130
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses, Notes 18-20)	10	70
Total	**4,695**	**7,671**

The total cash outflow for leases in 2020 was 5,714 thousand euros (IFRS 16) (2019: 6,578 thousand euros).

NOTE 12 Borrowings

	31 Dec 2020	31 Dec 2019
Current borrowings		
Current portion of bank loans	227	698
Overdraft	0	990
Current portion of finance lease liabilities	25	0
Other short term borrowings	0	43
Total	**252**	**1,731**
Non-current borrowings		
Non-current bank loans	778	424
Other non-current liabilities	96	64
Total	**874**	**488**
Total borrowings	**1,126**	**2,219**

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 116 thousand euros (2019: 697 thousand euros). Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 761 thousand euros (2019: 1,391 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 3,000 thousand euros as at 31 December 2020 (31 December 2019: 2,010 thousand euros).

Changes in 2020

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

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

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

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

Interest carrying loans of the Group as at 31 December 2020

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	1,006	EURIBOR +2,00%
Total	**1,006**	

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**	

The Group's collaterals for bank borrowings

As at 31 December 2020 and 31 December 2019 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 2020 carrying amount of assets pledged was 6,555 thousand euros, including inventories in amount of 3,467 thousand euros, property, plant and equipment in amount of 1,218 thousand euros, intangible assets in amount of 443 thousand euros and cash on the bank accounts 1,427 thousand euros.

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.

For additional information, see also Note 3.

Changes in liabilities arising from financing activities

	31.12.2019	Cash flows	New leases	Reclassified to equity	Other	31.12.2020
Current portion of long-term bank loans	**698**	-117	0	0	-354	**227**
Bank overdrafts	**990**	-990	0	0	0	**0**
Other current loans	**43**	-43	0	0	25	**25**
Non-current bank loans	**424**	0	0	0	354	**778**
Lease liabilities	**17,779**	-5,714	1,713	0	-4,158	**9,620**
Other non-current loans	**64**	3,550	0	-2,700	-818	**96**
Total liabilities from financing activities	**19,998**	**-3,314**	**1,713**	**-2,700**	**-4,951**	**10,746**

	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**

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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**

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

NOTE 13 Trade and other payables

	31 Dec 2020	31 Dec 2019
Current liabilities		
Trade payables	1,044	1,959
Tax liabilities, thereof	1,203	1,036
Personal income tax	164	123
Social security taxes and unemployment insurance premium	406	338
Value added tax	633	568
Other taxes	0	7
Payables to employees[1]	391	719
Customer prepayments	98	77
Other accrued expenses	35	23
Other current payables	18	48
Total	**2,789**	**3,862**

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

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

Trade payables and other accrued expenses in denominated currency

	31 Dec 2020	31 Dec 2019
EUR (euro)	940	1,064
USD (US dollar)	122	943
Total	**1,062**	**2,007**

For additional information, see also Note 3.

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NOTE 14 Provisions

Current provisions	31 Dec 2020	31 Dec 2019
Client bonus provision	0	250
Other provision[1]	230	6
Total	**230**	**256**

Short description of the client bonus provision

The Group offered 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.

Bonus program was cancelled 31 December 2020.

Changes in 2019

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.

Changes in 2020

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

Short description of the provision

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

NOTE 15 Equity

Share capital

	31 Dec 2020	31 Dec 2019
Share capital	5,408	5,408
Number of shares (pcs)	54,079,485	54,079,485
Nominal value of share (EUR)	0.10	0.10

As at 31 December 2020 and 31 December 2019 shares comprise only ordinary shares, which are listed on the Nasdaq Tallinn.

Change in the number of shares

	Number of shares
Number of shares 31 December 2019	54,079,485
Number of shares 31 December 2020	**54,079,485**

As at 31 December 2020 and 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. As at 31 December 2020 and 31

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December 2019 share capital consists of ordinary shares, that are listed on the Nasdaq Tallinn Stock Exchange and all shares have been paid for.

Reserves

	31 Dec 2020	31 Dec 2019
Other reserves	3,931	4,045

Changes in year 2019

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.

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 16, 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.

Changes in year 2020

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

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

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 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%**

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%**

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

NOTE 16 Segments

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

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

Description of segments and principal activities:

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

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

The Management Board monitors the Group´s results also by shops and brands. The Group makes decisions on a shop-by-shop basis, using aggregated information for decision making. For segment reporting the

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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
2020 and as at 31 Dec 2020				
Revenue (from external customers)	16,996	2,152	333	19,481
Segment profit[2]	-653	381	74	-198
Incl. depreciation and amortisation	-618	-4		-622
Inventories of segments	2,643			2,643
2019 and as at 31 Dec 2019				
Revenue (from external customers)	35,566	2,067	1,977	39,630
Segment profit[2]	3,468	437	387	4,292
Incl. depreciation and amortisation	-774			-774
Inventories of segments	4,051			4,051

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

Reconciliation of segment operating profit to consolidated operating profit

	2020	2019
Total segment profit	-198	4,292
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-2,360	-3,788
Administrative and general expenses	-2,353	-2,672
Impact of the lease accounting principles	0	-901
Other operating income (expenses), net	5,442	-1,443
Operating profit (loss)	**531**	**-4,512**

[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 2020	31 Dec 2019
Total inventories of segments	2,643	4,051
Inventories in Parent company	824	3,593
Inventories on statement of financial position	**3,467**	**7,644**

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

	31 Dec 2020	31 Dec 2019
Retail	1,269	1,564
Assets in parent company	692	655
Total	**1,961**	**2,219**

NOTE 17 Revenue and client bonus provision

	2020	2019
Sale of goods in retail channel	16,995	35,566
Sale of goods in wholesale and franchise channel	245	1,656
Sale of goods in e-commerce channel	2,153	2,067
Other sales	87	341
Total	**19,480**	**39,630**

Sales by geographical (client location) areas

	2020	2019
Estonia	9,906	18,875
Lithuania	4,977	10,081
Latvia	4,346	9,430
Finland	98	326
Russia	46	488
Ukraine	30	33
Germany	11	24
Austria	1	79
Serbia	0	119
Slovenia	0	104
Spain	0	1
Other countries	65	70
Total	**19,480**	**39,630**

Client bonus provision

The Group accrues provision 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 2020 decreased by 250 thousand euros (31 December 2019: 81 thousand euros). For further information about the assumptions used to form a provision, see Note 14.

NOTE 18 Cost of goods sold

	2020	2019
Materials and supplies	9,934	16,871
Payroll costs in production	0	2,919
Depreciation of assets used in production (Note 9-11)	0	659
Other production costs	0	298
Lease expense (Note 11)	0	2
Changes in allowance of inventories (Note 6)	120	-229
Total	**10,054**	**20,520**

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Baltika Group ceased its production activity during 2019. Baltika Tailor OÜ had almost no activity in 2020 and the subsidiary has been liquidated since 1 December 2020.

NOTE 19 Distribution costs

	2020	2019
Payroll costs[1]	5,267	8,990
Depreciation and amortisation (Note 9-11)	5,361	5,864
Operating lease expense (Note 11)[2]	-442	1,536
Advertising expenses	612	1,104
Municipal services and security expenses	314	393
Fuel, heating and electricity costs	302	436
Information technology expenses	156	254
Fees for card payments	91	196
Consultation and management fees	69	62
Communication expenses	60	85
Travel expenses	27	92
Other sales expenses[3]	417	576
Total	**12,234**	**19,588**

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

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

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

NOTE 20 Administrative and general expenses

	2020	2019
Payroll costs[1]	931	1,523
Depreciation and amortisation (Note 9-11)	591	434
Management, juridical-, auditor´s and other consulting fees	409	124
Information technology expenses	177	198
Fuel, heating and electricity expenses	60	66
Bank fees	36	88
Lease expense (Note 11)	10	32
Other administrative expenses[2]	139	207
Total	**2,353**	**2,672**

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

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

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NOTE 21 Wages and salaries

	2020	2019
Payroll costs	4,911	10,559
Social security costs	1,287	2,873
Total	**6,198**	**13,432**

The COVID-19 epidemic affected the distribution expenses the most; most importantly payroll costs decreased due to national wage subsidies. Wage costs were also affected by a significant decrease in the number of employees related to the restructuring compared to 2019. In 2020, the average number of employees in Baltika Group was 393 (2019: 823).

NOTE 22 Other operating income (-expense)

	2020	2019
Gain (loss) from sale, impairment of PPE and immaterial assets	-131	152
Other operating income[1]	5,721	44
Foreign exchange gain (-loss)	-45	-20
Fines, penalties and tax interest	-38	0
Other operating expenses	-65	-258
Total	**5,442**	**-82**

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

NOTE 23 Finance costs

	2020	2019
Interest cost	-761	-1,391
Total	**-761**	**-1,391**

In 2020, interest expense includes accounted interest expense from lease liabilities (IFRS 16) in the amount of 619 thousand euros (In 2019: 837 thousand euros).
For additional information, see Note 11 Leases.

NOTE 24 Income tax

	2020	2019
Deferred income tax income (-expense) (Note 7)	-140	-6
Tax expense	-7	0
Total income tax income (-expense)	**-147**	**-6**

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 2020

	Total
Loss before tax	-230
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	-140
Income tax expense	**-7**

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Deferred income tax income (-expense) (Note 7)	**-147**

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**

NOTE 25 Earnings per share

Basic earnings per share

		2020	**2019**
Weighted average number of shares (thousand)	pcs	54,079	36,069
Net loss (thousands)	EUR	-377	-5,909
Basic earnings per share	**EUR**	**-0.01**	**-0.16**

Diluted earnings per share

Diluted earnings per share for the periods ended 31 December 2020 and 31 December 2019 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 2020 and 31 December 2019, the Group had no dilutive potential ordinary shares.

There were no dilutive instruments in the reporting period. Instruments that could potentially dilute basic earnings per share are K-bonds in 2019 and the share option programs. Their dilutive effect is contingent on the share price and whether the Group has generated a profit.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in 2020 was 0.14 euros (2019: 0.23 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.

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];

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- 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	2020	2019
Services from entities under the control of the members of the Management Board and Supervisory Board	24	24
Total	**24**	**24**

In 2020 and 2019, AS Baltika bought mostly management services from the related parties.

Balances with related parties

	31 Dec 2020	31 Dec 2019
Borrowings and interests (Note 12,13, 15)	3,992	4,109
Total	**3,992**	**4,109**

All transactions in 2020 as well as in 2019 and balances with related parties as at 31 December 2020 and 31 December 2019 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

	2020	2019
Salaries of the members of the Management Board	278	485
Remuneration of the members of the Supervisory Board	11	12
Total	**289**	**497**

As at 31 December 2020 and 31 December 2019, there were two Management Board Members, four and five Supervisory Board Members accordingly.

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, is a member of the Management Board.

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 was the third member of the Management Board of AS Baltika. She was responsible for implementing the 2019–2020 operational plan, which main parts were 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 continued as an

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Advisor of the Supervisory Board of the company on the basis of a one-year contract, which was signed on June 26, 2019. As a result of the changes, the Management Board of AS Baltika continued with two members, Mae Hansen as CEO, who was responsible for the sales, marketing and retail business processes and Maigi Pärnik-Pernik, who was responsible for product development and support functions.

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 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 Group since April 2019.

NOTE 27 Subsidiaries

Subsidiary	Location	Activity	Holding as at 31 Dec 2020	Holding as at 31 Dec 2019
OÜ Baltika Retail	Estonia	Holding	100%	100%
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvija[1]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[1]	Lithuania	Retail	100%	100%
OY Baltinia AB	Finland	Liquidated	0%	100%
Baltika Sweden AB	Sweden	Liquidated	0%	100%
OÜ Baltika Tailor	Estonia	Liquidated	0%	100%

[1]Interest through a subsidiary.

NOTE 28 Reorganisation

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

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

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

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

NOTE 29 Events after the balance sheet date

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

Baltika Group´s stores in Estonia were closed for the weekend on 6th and 7th March 2021 and fully from 11th March 2021. As at the date of issuance the report the restrictions regarding closing stores is in place till 31st March 2021 in Lithuania, 6th April 2021 in Latvia and 11th April 2021 in Estonia. E-com has remained operational all the time.

NOTE 30 Supplementary disclosures on the parent company of the Group

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

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

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Statement of financial position of the parent company

	31 Dec 2020	31 Dec 2019
ASSETS		
Current assets		
Cash and cash equivalents	664	8
Trade and other receivables	1,169	3,498
Inventories	1,074	3,723
Total current assets	**2,907**	**7,229**
Non-current assets		
Investments in subsidiaries	863	1,025
Other non-current receivables	414	0
Property, plant and equipment	95	119
Right-of-use assets	555	1,587
Intangible assets	443	382
Total non-current assets	**2,370**	**3,113**
TOTAL ASSETS	**5,277**	**10,342**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	244	1,722
Lease liabilities	227	741
Trade and other payables	803	3,910
Total current liabilities	**1,274**	**6,373**
Non-current liabilities		
Borrowings	857	488
Lease liabilities	443	893
Other liabilities	75	0
Total non-current liabilities	**1,375**	**1,381**
TOTAL LIABILITIES	**2,649**	**7,754**
EQUITY		
Share capital at par value	5,408	5,408
Reserves	3,931	4,045
Retained losses	-6,865	-3,158
Net profit for the period	154	-3,707
TOTAL EQUITY	**2,628**	**2,588**
TOTAL LIABILITIES AND EQUITY	**5,277**	**10,342**

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Statement of comprehensive income of the parent company

	2020	2019
Revenue	9,891	24,082
Cost of goods sold	-8,578	-19,662
Gross profit	**1,313**	**4,420**
Distribution costs	-2,685	-4,520
Administrative and general expenses	-2,113	-2,564
Impairment loss of trade receivables	0	-31
Other operating income	92	-156
Other extraordinary operating income	5,047	0
Other operating expenses	-227	0
Operating profit (loss)	**1,427**	**-2,851**
Impairment and reversal of investments and receivables from subsidiaries	-1,165	-250
Interest expenses, net	-108	-606
Net loss(-)/profit for the financial year	**154**	**-3,707**
Total comprehensive income loss(-)/profit	**154**	**-3,707**

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Cash flow statement of the parent company

	2020	2019
Cash flows from operating activities		
Operating profit (-loss)	1,427	-2,851
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	981	833
Other non-monetary expenses	-5,045	-433
Changes in trade and other receivables	2,009	1,723
Changes in trade and other payables	-3,118	-3,083
Changes in inventories	2,649	2,990
Interest paid	-120	-456
Net cash generated from (used in) operating activities	**-1,217**	**-1,277**
Cash flows from investing activities		
Acquisition of non-current assets	-197	-51
Proceeds from disposal of PPE	30	2
Net cash used in investing activities	**-167**	**-49**
Cash flows from financing activities		
Proceeds from borrowings	3,550	3,000
Repayments of borrowings	-117	-3,708
Change in overdraft balance	-990	-1,344
Repayments of finance lease, principle	-361	-699
Repayments of lease liabilities, interest	-42	-101
Repayment of convertible notes	0	-845
Proceeds from share issues	0	5,000
Net cash generated (used in) from financing activities	**2,040**	**1,303**
Total cash flows	**656**	**-23**
Cash and cash equivalents at the beginning of the period	**8**	**31**
Cash and cash equivalents at the end of the period	**664**	**8**
Net change in cash and cash equivalents	**656**	**-23**

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Statement of changes in equity of the parent company

	Share capital	Reserves	Retained earnings	Total
Balance at 31 December 2018	**4,079**	**1,107**	**-7,936**	**-2,750**
Total comprehensive income	0	0	-3,707	-3,707
Reduction of the nominal value of the share	-3,671	-1,107	4,778	0
Issue of ordinary shares	5,000	0	0	5,000
Other reserve	0	4,045	0	4,045
Balance at 31 December 2019	**5,408**	**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**
Total comprehensive income	0	0	154	154
Other reserve	0	-114	0	-114
Balance at 31 December 2020	**5,408**	**3,931**	**-6,711**	**2,628**
Book value of holdings under control or significant influence				-863
Value of holdings under control or significant influence, calculated under equity method				3,575
Adjusted unconsolidated equity at 31 December 2020				**2,712**

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 2020, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 24 March 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and 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 Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

During 2020, we have not provided any non-audit services to the Group.

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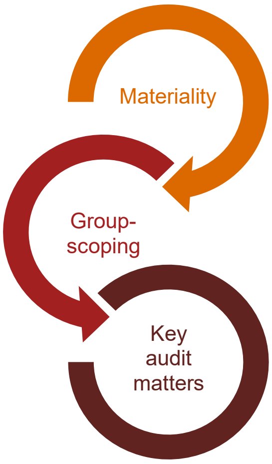
Our audit approach

Overview



Overall group audit materiality is EUR 178 thousand, which represents approximately 0,9% of Group’s revenue.

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

- Revenue recognition
- Inventory valuation

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

Materiality

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

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

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Overall Group audit materiality	EUR 178 thousand
How we determined it	Overall Group materiality represents approximately 0,9% of the Group's consolidated revenues.
Rationale for the materiality benchmark applied	We have applied this benchmark, as we consider the Group's ability to generate revenue to be key determinant of the Group's value and a key metric used by management, investors, analysts and creditors.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 2020 the Group recognised net revenue of EUR 19.5 million. Revenue consists mainly of retail revenue generated in shops in the amount of EUR 17.0 million, e-commerce sales revenue in the amount of EUR 2.2 million and wholesale revenue from wholesale and franchise partners in the amount of EUR 0.3 million. In our view, the vast majority of the Group's revenue transactions are non-complex, with no judgment required to be applied in respect of the timing of revenue or amounts recorded. However, some judgment and management estimates are needed for a proper accounting in certain areas, including: • client loyalty programme (until 31 December 2020); and • taking returns into account in recognition of the sales revenue. Revenue recognition requires significant time and resource to audit due to its magnitude, and is, therefore, considered to be a key audit matter.	We audited revenue recognition through a combination of controls testing and substantive testing. • We assessed the correctness of revenue bookings, by agreeing selected transactions in the accounting systems to supporting evidence, such as invoices, agreements and subsequent cash receipts. • We agreed a sample of retail revenue recorded in the general ledger to incoming cash grouped by retail store, day and location of stores, validating the amounts received to bank receipts and card payments. • We agreed a sample of e-commerce revenue recorded in the general ledger to amounts received as advance payments and those received from card payments. • We assessed the return volumes and credit invoices of both retail and wholesale customers, to ensure that all conditions to recognise revenue were met at the point of time of the revenue recognition and whether such transactions were recorded in a proper period. • We obtained the list of manual journal entries impacting revenue and reviewed entries for appropriate supporting evidence.

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

Inventories are recognised at the lower of cost and net realisable value. As of 31 December 2020, the total carrying amount of inventories was EUR 3.5 million, net of EUR 0.3 million allowance for impairment.

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

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

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

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

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

How we tailored our Group audit scope

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

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.

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

The European Single Electronic Format (ESEF) reporting requirements pursuant to Commission Delegated Regulation (EU) 2018/815

The annual consolidated financial statements of the Company and the Group for the year ended 31 December 2020 has not been prepared in accordance with ESEF reporting 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

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

Heili Ert
Auditor's certificate no.630

24 March 2021
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 2020 for 377 thousand euros to allocate as follows:

Retained earnings	-377
Total	**-377**

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 2020.

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

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Flavio Perini
Chairman of the Management Board, CEO
24 March 2021

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Jaakko Sakari Mikael Salmelin
Chairman of the Supervisory Board
24 March 2021

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Triinu Tarkin
Member of the Management Board, CFO
24 March 2021

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Reet Saks
Member of the Supervisory Board
24 March 2021

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Lauri Kustaa Äimä
Member of the Supervisory Board
24 March 2021

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Kristjan Kotkas
Member of the Supervisory Board
24 March 2021

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

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 31 December 2020: 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 31 Dec 2020: 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
Baltika shares held on 31 December 2020: 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 31 December 2020: 0

TRIINU TARKIN
Member of the Management Board, CFO
Member of the Board since December 1st 2020, in the Group since 2011
Master of Science in Finance and Economic analysis (Tallinn University of Technology)
Baltika shares held on 31 December 2020: 0

2020 Consolidated Annual Report (in thousands of euros)

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

Code	Definition	2020	2019
46421	Wholesale of clothing and footwear	7,677	21,704
47911	Retail sale via mail order houses or via Internet	2,152	2,067
46151	Brokerage of furniture, other products	52	160
68201	Other rental revenue	10	16
46191	Wholesale of other products	0	106
14131	Other sewing services	0	29
Total		**9,891**	**24,082**