

Company AS BALTIKA
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Title The second report of the reorganization advisor on the fulfillment of the reorganization plan

On 19 June 2020, Harju County Court approved the reorganization plan of AS Baltika (Baltika). The restructuring advisor needs to submit a report to the court and the impacted creditors every six months. The first report was submitted in December 2020. The second report is hereby published to all investors. The data and numbers in the report refer to Baltika on a stand-alone basis, not as a Group i.e. the numbers are not consolidated.

Due to the reorganization proceedings, Baltika has been able to focus and follow through with its business turnaround during the last year - switching to just one brand (Ivo Nikkolo), optimizing, and also heavily reducing all operating expenses even further than what was previously indicated in the reorganization plan. The new in-store assortment and the new business strategy have also helped Baltika survive the negative impact of the second wave of Covid-19. Baltika confirms it will certainly be able to successfully complete the reorganization plan and will manage the payment of all obligations according to the plan, if not even earlier than expected if there will not be any additional or other negative business scenarios in particular due to Covid-19 further spread all over Baltics.

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THE REPORT OF THE REORGANISATION ADVISOR ON THE FULFILMENT OF THE REORGANISATION PLAN

Harju County Court confirmed with 19.06.2020 ruling for civil case 2-20-4688 the reorganization plan of AS Baltika (hereafter Baltika).

In accordance with § 50 of the Reorganisation Act, the reorganization advisor of



Baltika hereby presents to the court and creditors the second written report regarding the fulfillment of the reorganization plan.

To verify the fulfillment of the reorganization plan and evaluate the financial situation, the reorganization advisor has used the audited accounts of Baltika as of 31.12.2020 and unaudited accounts as of 30.04.2021.

Fulfillment of the reorganization plan

The claims of 30 creditors in the total amount of 12 206 649.74 euros were transformed based on the reorganization plan. Claims were transformed into two groups.

The total financial impact of reduction of claims based on the reorganization plan is 5 045 198 euros, which is recorded under other operating revenue in Baltika's 2020 profit and loss statement.

During the reporting period, Baltika did not have to repay any principal claims. Such obligation starts from June 2021 for Group I and the end of 2021 for Group II.

Baltika paid in April of 2021 to the creditor of Group I - Swedbank - an amount of 85 000 euros towards the liability arising from loan agreement 10-078395-JI. Such repayment ahead of schedule was due to Baltika's decision to sell the Monton trademark (Baltika had previously decided to discontinue using it) to Shenzhen Maiteng International Apparel Co. Ltd. As the trademark was pledged to secure Baltika's liability to Swedbank, the latter agreed to release the pledge only on the condition that the proceeds from the sale of the trademark would be used towards repayment of the liability. As the result of the release of the pledge and sale of the trademark, Baltika's liability to Swedbank has decreased by 85 000 euros.

Based on the reorganization plan Baltika had to pay interest on the claims in Group I. Baltika has fulfilled this obligation.

Baltika's financial situation

Within the first six months after the confirmation of the reorganization plan Baltika's financial situation has been positively influenced by both transformation of the creditors' claims and also several substantive changes in Baltika's operations, as a result of which compared to the state prior to the reorganization, the gross profit of Baltika from the sale of goods has improved and various operating expenses have reduced (incl rent expenses that fall under several operating expenses, payroll).

Results of the first half of 2021 are being significantly affected by restrictions caused by the Covid-19 pandemic and the closure of stores in Lithuania, Latvia, and Estonia. The sharp decline in revenue starting from December 2020 (stores were completely closed in Latvia and Lithuania from



December of 2020 and in Estonia from March of 2021, and reopened to visitors in May of 2021 in Lithuania and Estonia and June of 2021 in Latvia), which was partly compensated by an increase in revenue from e-channel, meant that during the period of December 2020 to April 2021 Baltika's actual revenue, gross profit, and operating profit were considerably lower than the respective figures presented in the prognosis in the reorganization plan.

The below table contains the prognosis of 2020 profit and loss statement presented in the reorganization plan of Baltika, actual profit and loss for 2020, the figures for 4 months from the prognosis (01.01.2021 until 30.04.2021), and the actual profit and loss statement for four months.

Thousand euros	Prognosis 12 months 2020 in the reorganization plan	Actual 12 months 2020	Prognosis 4 months 2021	Actual 4 months 2021
Revenue	12 300	9 891	8 248	2 286
Total revenue	12 300	9 891	8 248	2 286
Cost of goods sold	11 302	8 578	4 516	1 656
Gross profit	998	1 313	3 732	630
Gross profit margin	8.1%	13,3%	45,2%	27,55%
Various operating expenses	2 844	2 140	873	506
Payroll	3 533	2 576	798	899
Depreciation, amortization, and impairment	137	82	56	34
Other operating expense (-) /income (+)	3 895	3 747	119	84
Operating income (- loss)	-1 622	262	2 124	-725

A comparison shows that the actual operating profit of Baltika for 2020 was far better than the prognosis made when compiling the reorganization plan, but the actual operating profit for the first four months of 2021 is considerably worse than the prognosis made when compiling the reorganization plan. Looking at the combined profit and loss for 16 months or the period from 01.01.2020 to



30.04.2021, which reflects both the impact of the measures of the reorganization plan and the impact of the closure of stores due to the second wave of Covid-19, one can see that cumulatively both combined figures of actual revenue and operating profit are lower than those of prognosis in reorganization plan (see table below).

Thousand euros	Prognosis in reorganization plan for 16 months till 30.04.2021	Actual for 16 months till 30.04.2021
Revenue	20 548	12 177
Total revenue	20 548	12 177
Cost of goods sold	15 818	10 234
Gross profit	4 730	1 943
Gross profit margin	23%	16%
Various operating expenses	3 718	2 646
Payroll	4 331	3 475
Depreciation, amortization and impairment	193	116
Other operating expense (-) / income (+)	4 014	3 831
Operating income (-loss)	502	-463

The comparison between actual profit and loss for 16 months and prognosis made while compiling reorganization plan shows that actual various operating expenses and payroll expenses are lower than in prognosis. Therefore, the deficit of operating profit can be fully explained by lower gross profit, which in turn is caused by the circumstances of the first four months of 2021 (closed stores).

For the fulfillment of the reorganization plan, it is important that Baltika's future financial results, considering the temporary worsening in the first half of 2021, are such that they allow repayment of creditors' claims in accordance with the terms of the reorganization plan. According to the forecast made by Baltika's management for 2021 (presented to reorganization advisor in June 2021), and assuming normalization of retail activities from the summer of 2021 onwards, Baltika's financial results and cash flows would be sufficient for that purpose.



The number of Baltika's employees reduced from 112 as at the end of March 2020 to 58 as of 31.10.2020 and 53 as of 30.04.2021.

Baltika's shareholders' equity is EUR 1 883 thousand as of 30.04.2021.

As of 30.04.2021 Baltika basically has no overdue payables (as of 30.04.2021 Baltika had 255 euros worth of overdue liabilities which were paid at the beginning of May. In addition, Baltika had an unrecognized liability of 15 914 GBP, which it had disputed, but settled in May following an agreement).

Based on the above, the reorganization advisor is of the opinion that as a result of confirming the reorganization plan and implementing the reorganization measures Baltika's financial situation has improved. Baltika has followed in its operations the reorganization plan, due to which fulfilling the reorganization plan, including paying the creditors' claims in the period set out in the reorganization plan is still realistic.

The reorganization advisor confirms, that he has forwarded this report in addition to the court also to all the creditors that are impacted by reorganization.

Tallinn, 14.06.2021.a.

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