

FINANTSINSPEKTSIOON

Company AS BALTIIKA
Type Company Release
Category Other corporate action
Disclosure time 17 Jun 2022 16:10:00 +0300

Currency
Title THE FOURTH REPORT OF THE REORGANIZATION ADVISOR ON THE FULFILLMENT OF THE

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 fourth 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.

The results of the first four months of 2022 were significantly affected by the war in Ukraine, which significantly reduced the number of store visits throughout the Baltics in the first weeks of March. In addition, during the first quarter, the entire Baltics continued to suffer from high a COVID-19 morbidity rate and this offered challenges in terms of day-to-day operations and, of course, store visits.

Due to the reorganization proceedings, Baltika has been able to take the following successful steps in implementing its business strategy - closing most of the unprofitable stores and launching the new store concept in three locations. Although Baltika's sales revenue decreased due to the planned closure of unprofitable stores, this is compensated by the opening of the new concept stores. Baltika opened new Ivo Nikkolo concept stores in March and April in the Spice shopping center in Riga, in the Rotermann Quarter in Tallinn and in the Riga Plaza shopping center in Riga.

According to the reorganization advisor, Baltika's financial position has improved because of the approval of the reorganization plan and the implementation of reorganization measures. Baltika's management and the representative of the majority shareholder have presented the reorganization advisor a plan to restore equity without increasing the share capital. Baltika confirms that it will be able to successfully fulfil the commitments made in the reorganization plan and restore the company's equity.

Brigitta Kippak
Member of the Management Board

Finantsinspeksiōn
<http://www.fi.ee>



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 reorganisation plan of AS Baltika (hereafter Baltika).

In accordance with § 50 of the Reorganisation Act, the reorganisation advisor of Baltika hereby presents to the court and creditors the fourth written report regarding the fulfilment of the reorganisation plan.

To verify the fulfilment of the reorganisation plan and evaluate the financial situation, the reorganisation advisor has used the audited accounts of Baltika as at 31.12.2021 and unaudited accounts as at 30.04.2022.

Fulfilment of the reorganisation plan

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

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

Based on the reorganisation plan Baltika had to pay interest on the claims in Group I and starting from June of 2021 start payments of principal amounts in Group I. Baltika has fulfilled this obligation to Swedbank AS. Other creditors in Group I have confirmed to reorganisation advisor that they do not require Baltika to pay in accordance with the reorganisation plan and agree to be paid later.

Based on the reorganisation plan payments of principal amounts of claims in Group II have to begin from the end of 2021. The company has fulfilled this obligation before 31.12.2021.

Baltika's financial situation

Within the first six month after the confirmation of reorganisation plan Baltika's financial situation had 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 reorganisation, the gross profit of Baltika from the sale of goods had improved and various operating expenses have reduced (incl rent expenses that fall under several operating expenses, payroll).

The below table contains the prognosis of 2021 profit and loss statement



presented in the reorganisation plan of Baltika, actual profit and loss for 2021, the figures for 4 months from the prognosis (01.01.2022 until 30.04.2022) and the actual profit and loss statement for the four months of 2022.

Thousand euros	Prognosis 12 months		Actual 4 months 2022	
	2021 in reorganisation plan	Actual 12 months 2021	Prognosis 4 months 2022	Actual 4 months 2022
Revenue	17 535	6 113	8 944	1 499
Total revenue	17 535	6 113	8 944	1 499
Cost of goods sold	12 202	5 402	4 978	1 209
Gross profit	5 333	711	3 966	290
Gross profit margin	30%	12%	44%	19%
Various operating expenses	2 432	1 640	845	403
Payroll	2 267	2 028	814	616
Depreciation, amortisation and impairment	162	56	65	39
Other operating expense (-) /income (+)	-119	111	0	-7
Operating income (-) loss)	591	-2 902	2 243	-774

Results of 2021 have been significantly affected by restrictions caused by Covid-19 pandemic and closure of stores in Lithuania, Latvia and Estonia. 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 2021 Baltika's actual revenue, gross profit and operating profit were considerably lower than the respective figures presented in the prognosis in the reorganisation plan.

Revenue, gross profit and operating profit for the four months of 2022 were significantly affected by the following events:

1. Unpredicted state of war between Russia and Ukraine that had an impact of the sales of Baltika in the first weeks of March (decline in number of visitors to stores). The strongest impact was experienced in the Lithuanian market where visitor numbers began to decline from the second half of February (local media was covering the threat of potential war). By the end of March the situation in the Baltics had stabilised and visitor numbers started to recover gradually.
2. All Baltic countries experienced high rates of COVID-19 cases in the first quarter of 2022, which impacted negatively on the visits to stores and also presented challenges to everyday management of stores' operations, due to which quality of service also declined and impacted on sales negatively.
3. Decline in revenue resulted from planned closure of loss making stores:

a. In January of 2022 three stores were closed in Estonia:

- i. Narva Fama
- ii. Pärnu Kaubamajakas
- iii. Tallinn Viru Centre

b. In March of 2022 two more stores were closed:

- i. In Nautica centre in Tallinn
- ii. In Spice trade centre in Riga

c. In April of 2022 the outlet store in Tallinn was closed

In Estonia, which is the market with the largest number of stores, closure of loss making stores is planned to continue until July of 2022.

Decline in revenue will be compensated by opening of three new Ivo Nikkole concept stores:

- a. 17.03.2022 in Spice trade centre in Riga
- b. 28.03.2022 in Rotermann quarter in Tallinn
- c. 6.4.2022 in Riga Plaza trade centre in Riga

The actual cumulative profit and loss for 28 months from 1 January 2020 to 30 April 2022, the period which reflects the effect of reorganisation plan and closure of stores due to COVID-19, shows that cumulatively both actual total revenue and total operating profit are significantly lower than foreseen on the reorganisation plan (see table below).

	Prognosis in reorganisation plan for 28 months till 30.04.2022	Actual for 28 months till 30.04.2022
Thousand euros		
Revenue	38 779	17 503



Total revenue	38 779	17 503
Cost of goods sold	28 482	15 190
Gross profit	10 297	2 313
Gross profit margin	27%	13%
Various operating expenses	6 121	4 182
Payroll	6 614	5 221
Depreciation, amortisation and impairment	364	176
Other operating expense (-) /income (+)	3 776	3 851
Operating income (-loss)	974	-3 415

The comparison between actual profit and loss for 28 months and prognosis made while compiling reorganisation plan shows that actual various operating expenses and payroll expenses are lower than in prognosis. Therefore, the deficit of operating profit can be explained by lower revenue and gross profit, which in turn is caused by the circumstances described above (closed stores, low visitor number due to high rates of Covid cases, and war in Ukraine).

For the fulfilment of the reorganisation plan it is important that Baltika's future financial results, considering the worsening in 2021 and the first half of 2022, are such that they allow repayment of creditors' claims in accordance with the terms of the reorganisation plan. According to explanations provided to reorganisation advisor by Baltika's management, 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 at 31.10.2020 and 39 as at 30.04.2022.

Baltika's shareholders' equity is EUR -821 thousand as at 30.04.2022. Baltika's consolidated equity as per audited annual financial statements for the year ended 31.12.2021 is also not meeting the requirements of the Commercial Code of Estonia (as of year-end equity amounts to EUR312 thousand, according to the first quarter interim report as of 31.03.2022 equity decreases to EUR-1,033 thousand). In the Management Report for 2021 the management states that a detailed plan for restoring sufficient equity level would be discussed at the next general meeting of shareholders, which has not yet taken place by the date of this report.

As at 30.04.2022 Baltika had overdue payables to suppliers in the amount of EUR369 thousand, of which EUR138 thousand have not been paid as of the date of this



report, of the later amount majority is formed by a supplier invoice disputed due to quality problems. Baltika's free cash (unused bank overdraft) balance as of 30 April 2022 is EUR738 thousand. Company's current receivables amount to EUR2 494 thousand and current liabilities to EUR1 724 thousand. Therefore there are currently no indications of liquidity problems.

Based on the above, the reorganisation advisor is of the opinion that as a result of confirming of the reorganisation plan and implementing the reorganisation measures Baltika's financial situation has improved. Baltika has followed in its operations the reorganisation plan and fulfilled the reorganisation measures. Due to worsening of financial performance from the end of 2020, Baltika's equity as of 30 April 2022 has become negative, which indicates that uncertainty exists that may cast doubt upon Baltika's ability to continue as a going concern. Baltika's management and a representative of majority shareholder have presented reorganisation advisor with a plan that would result in restoring the equity without a share capital increase, but reorganisation advisor is not in a position to disclose details of this plan. Restoring of equity to the level prescribed by the Commercial Code is thus dependent on realisation of the aforementioned plan or may alternatively be achieved by decision of the general meeting of shareholders' to raise additional share capital. Assuming one of these alternatives materialises, fulfilling the reorganisation plan, including paying the creditors' claims in the period set out in reorganisation plan is still realistic.

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

In Tallinn, on 17 June, 2022

Artur Suits
Reorganisation advisor of Aktsiaselts Baltika

Digitally signed

