

# FINANTSINSPEKTSIOON

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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 sixth 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 reorganization process has allowed Baltika to continue with business restructuring. We have closed the majority of unprofitable stores and launched a new store concept in four locations. We have optimized business processes and significantly reduced operating costs. The processes related to cost optimization, efficiency improvement, and profitability enhancement will continue throughout 2023. The decisions and changes made during the reorganization process are already having a positive impact on Baltika's financial results. Baltika confirms its ability to successfully fulfill the reorganization plan and the commitments made in the plan.

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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 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 sixth 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 31.12.2022 and unaudited accounts as at 30.04.2023.

#### 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. Baltika has fulfilled this obligation to Swedbank AS. Other creditors in Group 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 had to begin from the end of 2021. The first payments were made before the deadline or 31 December 2021, the second payments were made before the deadline of 31 December 2022.

#### Baltika's financial situation

Within the first six month after the confirmation of reorganisation 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 reorganisation, 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).

The below table contains the prognosis of 2022 profit and loss statement presented in the reorganisation plan of Baltika, actual profit and loss for 2022, the figures for 4 months from the prognosis (01.01.2023 until 30.04.2023) and the actual profit and loss statement for four months of 2023.

Thousand euros	Prognosis 12 months		Prognosis 4 months 2023	Actual 4 months 2023
	2022 in reorganisation plan	Actual 12 months 2022		
Revenue	19 014	2 887	9 618	1 971
Total revenue	19 014	2 887	9 618	1 971



Cost of goods sold	13 451	4 060	5 359	1 423
Gross profit	5 564	-1 173	4 259	548
Gross profit margin	29%	-41%	44%	28%
Various operating expenses	2 353	1 150	905	319
Payroll	2 312	1 562	830	534
Depreciation, amortisation and impairment	187	140	73	39
Other operating expense (-) /income (+)	0	7 379	0	4
Operating income (-) loss)	711	3 354	2 450	-339

Revenue for 2022 was 2 887 th. Euro and has declined 53% in comparison to 2021 (2021: 6 113 th. Euro). Revenue was significantly affected by the following events:

- \* Unpredictable state of war between Russia and Ukraine that had an impact of the sales of Baltika from the first weeks of March.
- \* 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.
- \* During 2022 a total of 12 stores were closed resulting in significant decline in revenue compared to 2021. Decline in revenue was compensated by opening of four new concept stores and one outlet store.
- \* Adjustment of intra-group transfer pricing that resulted in decreasing of AS Baltika's revenue by 2 330 th Euro.

Operating profit for 2022 was materially impacted by Baltika's strategic decision to sell part of Ivo Nikkolo trademarks and continue using them under an exclusive licence agreement. As a result of this transaction, Baltika recorded a one-off gain of 7 436 th Euro and as a result operating profit for the year was 3 354 th Euro.

Revenue for 01.01.2023 – 30.04.2023 was 1 971 thousand Euro, an increase of 31% compared to the same period last year (01.01.2022 – 30.04.2022: 1 499 thousand Euro) Increase in revenue was caused by the following:



- \* Demand for Ivo Nikkolo products has increased in comparison to previous year. Revenue of retail segment of Baltika grew 7% during the first four months of 2023 as compared to the same period previous year.
- \* Group's retail segment has been growing organically. As of end of April last year Baltika was operating 30 stores, whereas at the end of April this year the number of stores was 25. Hence Baltika was able to grow revenue despite of decreasing number of stores.

Gross profit for 01.01.2023 - 30.04.2023 was 548 th. Euro, and gross profit margin 28%. Gross profit for the comparable period of the previous year was 290 th. Euro and gross profit margin 19%. Gross profit margin has improved by nine percentage points. Comparable period saw a significant increase in prices of raw materials and cost of transportation. In addition, during the comparable period US dollar was strong in relation to Euro, which caused a considerable increase in the cost of goods and their procurement. By the end of 2022 prices of raw materials and transportsations started to decline and US Dollar was weakening against Euro. As a result, Baltika was able to procure goods on considerably more favourable terms as compared to same period last year.

Operating loss for 01.01.2023 - 30.04.2023 was 339 thousand Euro. Operating loss for the comparable period the previous year was 774 thousand Euro. Baltika has decreased its operating loss by 56%. Reduction of loss is a result of material increase in revenue, improved gross margin, and continuous reduction of expenses.

The prognosis vs actual cumulative profit and loss for 40 months from 1 January 2020 to 30 April 2023 is presented in the table below.

Thousands euros	Prognosis in reorganisation		Actual for 40 months till 30.04.2023
	plan for 40 months till 30.04.2023		
Revenue	48 849		20 861
Total revenue	48 849		20 861
Cost of goods sold	36 955		19 463
Gross profit	11 894		1 398
Gross profit margin	24%		7%
Various operating expenses	7 629		5 248
Payroll	8 112		6 700
Depreciation, amortisation			



and impairment	487	317
Other operating expense (-		
) /income (+)	3 776	11 241
Operating income (-loss)	-558	374

While observing the actual profit and loss for 40 months (01.01.2020 to 30.04.2023), into which period fall the impact of reorganisation of claims, the impact of closure of stores due to Covid-19, lower number of visitors due to high number of Covid cases within population, and the impact of the war in Ukraine, as well as decline in demand caused by rising energy prices and inflation, one can see that cumulatively both actual revenue and gross profit are lower than in prognosis made while compiling reorganisation plan. At the same time actual various operating expenses and payroll expenses are lower than in prognosis. Due to the one-off gain of 7 436 th Euro from the sale of trademarks, cumulative operating profit of Baltika is 374 th Euro, and this result is significantly better than in the prognosis made while compiling reorganisation plan.

Baltika's shareholders' equity as of 30 April 2023 is 2 480 thousand Euro.

For the fulfilment of the reorganisation plan it is important that Baltika's future financial results, considering the worsening of results 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 the forecast made by Baltika's management and presented to reorganisation advisor, Baltika's projected 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 40 as at 30.04.2023.

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, due to which 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.

Tallinn, 16.06.2023.a.

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Reorganisation advisor of Aktsiaselts Baltika

