AS BALTIKA

2022 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal Form of Entity	Public limited liability company
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	KPMG Baltics OÜ
Beginning and end of financial year	01.01.2022 - 31.12.2022
Name of parent entity	AS Baltika
Name of ultimate parent of group	AS Baltika

CONTENTS

MANAGEMENT REPORT

BALTIKA GROUP

Baltika Group (hereinafter referred to as the Group), whose parent company is AS Baltika (hereinafter referred to as the Parent Company), is engaged in international clothing trade. The Group develops and operates the fashion brand Ivo Nikkolo. The Group uses a business model that combines the creation of clothing collections, supply chain management for wholesale and retail trade. The Parent Company's shares are listed on the Tallinn Stock Exchange, which is part of the NASDAQ stock exchange group.

MISSION AND KEY STRATEGIC STRENGTHS

The mission of the Group is to create fashion that inspires, empowers and encourages women to live in their own style.

The Group's strategic strengths are:

- An ambitious and international team of professionals.
- A strong niche player who understands the needs of regional customers and acts accordingly.
- A lean organization that empowers employees, is flexible, and therefore allows for quick action.

KEY FIGURES AND RATIOS

	2022	2021	2020	2019	2018
Comprehensive income figures, in millions					
Revenue	9.6	11.8	19.5	39.6	44.7
Gross profit	4.9	6.1	9.7	19.2	21.5
EBITDA	6.6	12	6.5	3.8	-2.9
Operating profit	3.8	-2.4	0.5	-4.5	-4.7
Profit before income tax	3.5	-2.7	-0.2	-5.9	-5.2
Net profit	3.5	-2.8	-0.4	-5.9	-5.1
Other figures					
Number of stores in retail	25	34	61	82	94
Number of stores total	25	34	61	82	117
Retail sales area in the end of period, sqm	6,433	9,236	14,869	16,467	17,758
Number of employees (31 Dec)	143	173	277	529	975
Sales activity key figures					
Revenue growth	-18.3%	-39.6%	-50.8%	-11.4%	-5.8%
Retail sales growth	-11.7%	-42.4%	-52.2%	-7.4%	-2.7%
Share of retail sales in revenue	90%	83,1%	89.7%	89.7%	86.0%
Gross margin	51.4%	52.0%	49.6%	48.5%	48.1%
Operating margin	39.1%	-20.4%	2.7%	-11.4%	-10.5%
EBT margin	35.9%	-23.2%	-1.2%	-14.9%	-11.6%
Net margin	36.0%	-23.71%	-1.9%	-14.9%	-11.4%
Inventory turnover	2.13	1.78	3.14	2.07	2.14
Financial position figures, in millions					
Total assets	14.9	11.7	16.5	27.3	15.0
Interest-carrying liabilities	8	9	10	20	9.0
Equity	3.7	0.2	2.7	3.2	0.1
Current ratio	0.8	0.8	0.9	0.8	0.9
Debt to equity ratio	223.2%	3701.6%	381.3%	624.3%	13660.8%

Net debt to equity ratio	217.0%	3 453.0%	328.7%	1640.0%	12785.0%
ROE	338.3%	-200%	-31.3%	3408.7%	-138.0%
ROA	27.3%	-21.7%	-1.5%	-21.4%	-28.2%

Key share data, EUR[1]					
Number of shares outstanding (31 Dec)	54 079 485	54 079 485	54 079 485	54 079 485	40 794 850
Weighted average number of shares	54 079 485	54 079 485	54 079 485	36 068 899	40 794 850
Share price (31 Dec)	0.15	0.26	0.41	0.14	0.16
Market capitalisation, in millions (31 Dec)	8.0	14.1	22.2	7.3	6.7
Earnings per share (EPS)	0.06	-0.05	-0.01	-0.16	-0.13
Diluted earnings per share (DPS)	0.06	-0.05	-0.01	-0.16	-0.13
Change in EPS, %	220%	-670%	96%	23%	2981%
P/E	2.29	-5.2	-58.84	-0.88	-1.80
Book value per share	0.07	0.01	0.05	0.02	0.00
P/B	2.2	26	8.2	6.3	97.4
Dividend per preference share	0	0	0	0	0
Interest rate	0	0%	0%	0%	0%
Preference share dividend pay-out ratio	0	0%	0%	0%	0%
Dividend per share	0*	0*	0*	0*	0*
Dividend yield	0%*	0%*	0%*	0%*	0%*
Dividend pay-out 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-write off 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

CEO'S STATEMENT

Since 2020, the Group has been undergoing significant changes due to both global factors and the restructuring of the Group's Parent Company. However, 2022 can already be called the last intensive year of the company's transformation, during which we closed 12 stores and opened five new ones. The majority of closures occurred in the Estonian market, while in Lithuania and Latvia, the closure of unprofitable stores that were not compatible with the company's new strategy mostly took place in 2020 and 2021.

After this transformation, we have reached a stage where we are making plans and allocating additional resources for further development. 2022 marks our "zero" year, from which we anticipate efficient and sustainable growth for the company. The years of change have not been easy, and the entire process has taken longer than we initially thought. In August 2022, we sold part of the Ivo Nikkolo brand for 8 million euros to raise additional capital. The Group continues to use the brand under a license agreement.

The war in Ukraine that began in late February 2022, causing major changes in global trade, also distracted our customers from their desire for fashionable goods. In the first half of the year, such spending seemed trivial to many, but as we approached autumn, we again felt a slowly growing interest in clothing and accessories among our customers.

In 2022, we opened the first four stores with a new store concept in Estonia, Latvia, and Lithuania, and also opened our first Ivo Nikkolo outlet store in the Arsenal centre in Tallinn.

In 2022, the Group's revenue decreased by 18% compared to the previous year, while sales of Ivo Nikkolo brand collections grew by 38%, reaching 9,482 thousand euros. We ended the year 2022 with a profit of 3,462 thousand euros. However, without the sale of the trademarks, the result would have been a loss of 3,985 thousand euros.

At the end of the year, we updated and modernized the company's values in such a way that all of our employees across the Baltics could identify with common goals, regardless of whether they had been working with us for 1 month or 47 years. As the Group has become smaller, our team spirit has become increasingly stronger, and I thank all my colleagues in Estonia, Latvia, and Lithuania for taking on last year's challenges, and we can face the challenges of 2023 with an even stronger team.

The new e-shop launched in September speaks to the customer in the new visual language of Ivo Nikkolo, and together with the new store concept in physical stores, it strengthens both our e-commerce growth and the constant improvement of the customer experience across channels.

In line with our digitalization efforts, we upgraded the Group's ERP system in 2022, and have been preparing to reintroduce our inventory management AI-based software, Getron Advisor. The use of AI-generated recommendations in our inventory management was not particularly consistent during the turnaround and pandemic-related changes.

In 2021, it became clear to us that the efficiency of processes can only be ensured through their regular review and improvement. In 2022, the supply chain - one of the processes that most affect our business efficiency - was under the biggest influence of global impacts. When planning the collection schedule, we had to take into account the significantly extended supply chain, and the right decisions in this area allowed us to ensure timely arrival of goods, especially for fall-winter products.

At the same time, we were greatly affected by the rise in shipping costs and the appreciation of the US dollar against the euro, which we were able to partly pass on to retail prices without compromising the price-to-quality ratio, but which still partially reduced our profit margin. To maintain our gross profit margin, we introduced a new product discount policy with lower discount rates, which also supports our sustainability direction.

In 2022, the style of the Ivo Nikkolo collection was further refined and clarified, which resulted in the best results for the autumn-winter collection after the brand renewal. This indicates that our customers can identify with our product. Based on this realization, we also finalized a new product strategy cantered on style, quality, fit, and sustainability.

In 2023, we will continue to implement the updated 2025 strategy.

- We will focus on the Group's core markets (Estonia, Latvia, and Lithuania), especially on increasing efficiency in retail stores and e-commerce sales volumes in the Baltic States and Finland.
- We will continue to open Ivo Nikkolo stores with the new concept, aiming to open 1-2 new stores in existing locations.
- The new concept Ivo Nikkolo stores opened in 2022 have shown a growth trend in sales efficiency, which is a positive signal to potential franchise partners, whose search we will start in 2023.
- We will focus on increasing Ivo Nikkolo brand awareness and loyalty in the Baltics.
- We will continue to implement the Ivo Nikkolo product strategy developed in 2022. The new Ivo Nikkolo design handwriting and quality level have now been established, allowing us to offer even more suitable products to customers and increase sales.
- The product strategy developed in 2022 includes sustainability goals in product development and supply chains, and in 2023 we will expand the sustainability strategy to the entire business.
- Strategic growth in e-commerce will be the focus in 2023 and in the following years. The new e-commerce store, with positive customer feedback, will allow us to increase Ivo Nikkolo brand awareness outside the Group's core markets. In addition to increasing sales through the brand's e-commerce store, we also plan to enter international Marketplace-type platforms to more forcefully introduce the Ivo Nikkolo brand to international markets.
- In 2023, our goal is to grow profitably - both by increasing gross profit and optimizing costs. Our aim is to ensure the right product in the right place at the right time and at the right cost. To achieve this, we will focus on improving business processes, optimizing resources (including human resources), using technology and artificial intelligence in daily decision-making, and optimizing logistics (both inbound and outbound) costs.
- People are what drive the company forward, so in 2023 we will focus even more on culture, motivation, and recognition. We will continue to develop bonus systems that support the goal of profitable growth and the principle of sharing success.
- In 2023, we will celebrate the 95th anniversary of the Baltika Group.

Brigitta Kippak

Chairman of the Management Board, CEO

FINANCIAL RESULTS OF 2022

Group's net profit in 2022 was 3,462 thousand euros. The strategic decision of the Group to sell part of the Ivo Nikkolo brand and continue to use the brand under a license agreement had a significant impact on the 2022 net profit result. As a result of the sale transaction, the Group received a one-time profit of 7,447 thousand euros. Without the Ivo Nikkolo brand sale transaction, Group's 2022 result would have been a net loss of 3,985 thousand euros. In the comparable period, the net loss was 2,791 thousand euros.

Group's 2022 sales revenue was 9,613 thousand euros, decreasing by 18% compared to the same period last year. Online sales decreased by 49%, and retail sales decreased by 12%. The year 2022 brought strong growth in the sales of Ivo Nikkolo products. The sales revenue of Ivo Nikkolo products increased by 38% in 2022 to 9,482 thousand euros. In 2022, the sales of Ivo Nikkolo products accounted for 98% of Group's total sales revenue. Since the second half of 2021, the Group has been operating only one brand – Ivo Nikkolo. In 2021, discontinued brands Monton, Mosaic, Baltman, and Bastion accounted for 42% of sales revenue, while the remaining 58% of sales revenue was generated by the sales of Ivo Nikkolo products.

In 2022, retail sales amounted to 8,635 thousand euros, which is 12% less than the previous year. The decline in sales revenue is due to the following reasons:

- Group's strategic decision to discontinue the sales activities of the Mosaic, Baltman, Bastion, and Monton brands and continue with only one brand - Ivo Nikkolo.
- The continuation of the COVID-19 pandemic, which had the most significant impact on results in the first quarter of 2022.
- The unpredictable war situation between Russia and Ukraine negatively affected Baltika Group's sales revenue at the end of the first quarter and the beginning of the second quarter.
- The Group has continued its planned closure of unprofitable stores. In 2022, the Group closed 12 stores.

The largest decrease in retail sales was in Estonia (-33%), mainly due to the fact that the most unprofitable stores were closed in the Estonian market. Retail sales in Latvia increased by 42% and in Lithuania by 6%. The growth in sales in Latvia and Lithuania is largely due to the fact that in the first quarter of 2021, COVID restrictions were in place throughout the quarter.

In 2022, Group's e-commerce revenue decreased by 49% and amounted to 943 thousand euros. The 2021 e-commerce result is not fully comparable because the Group had two e-stores (Monton and Ivo Nikkolo) during the comparable period, so last year's e-commerce result included the discounted sales of Baltman and Monton discontinued brands through Monton's e-store. Monton's e-store was permanently closed in September 2021.

The Group's gross profit in 2022 was 4,884 thousand euros, which is a decrease of 1,236 thousand euros compared to the same period of the previous year (2021: 6,120 thousand euros). The gross profit margin was 51%, decreasing by 1 percentage point compared to the same period of the previous year (2021: 52%).

Group's marketing and administrative expenses were 8,536 thousand euros, decreasing by 10% compared to the same period last year (2021: 9,442 thousand euros). The decrease in marketing expenses is related to general cost savings and the closure of unprofitable stores. The reduction of administrative expenses is part of Group's restructuring plan.

Other income in 2022 amounted to 7,616 thousand euros, which includes a one-off profit of 7,447 thousand euros, resulting from the Group's strategic decision to sell some of the Ivo Nikkolo trademarks and continue to use the trademarks under a license agreement.

The other operating expenses for 2022 were 209 thousand euro, which includes 122 thousand euros in losses from the sale and write-off of tangible fixed assets and 45 thousand euros in losses from currency exchange rate changes.

Financial expenses for the year amounted to 304 thousand euros and there was a tax income of 11 thousand euros due to the change in the deferred tax reserve.

The cash and cash equivalents balance at the end of the year was 222 thousand euros, using a bank overdraft facility of 2,740 thousand euros (out of a limit of 3,000 thousand euros) at the end of the year.

The Management Board of the Group considers the results of 2022 to be positive. The Group was able to significantly increase the sales revenue of Ivo Nikkolo products and maintain good gross profitability despite the uncertain economic environment, increased raw material and transportation costs, and volatility in the US dollar. Consistent efforts to increase efficiency and close unprofitable stores have gradually improved the Group's financial indicators. Increasing efficiency will continue to be a focus for the Group.

HIGHLIGHTS OF THE PERIOD UNTIL THE RELEASE OF ANNUAL REPORT

- On 05.01.2023 Baltman OÜ, a subsidiary of AS Baltika, and Kalaport OÜ entered into a compromise, which ended the legal dispute regarding the lease agreement for the Ivo Nikkolo store located at Suur-Karja 14 in Tallinn’s old town, which began in early 2021, by agreement between the parties. With the compromise, both Kalaport OÜ and Baltman OÜ mutually waived all claims and Baltman OÜ will continue to fulfil the lease agreement, taking into account the differences agreed in the compromise, from 01.02.2023. The parties have agreed that the terms of the compromise agreement are confidential. Harju County Court approved on 10.01.2023 the compromise agreement.

- In mid-January 2023, Baltika joined the e-store packaging recycling system. Customers of our e-store have the opportunity to order goods in reusable Low imPACK packaging. The goal of the system is to reduce the amount of disposable packaging waste generated when shopping in the e-store.

- On 08.02.2023, our brand store at Ivo Nikkolo Suur-Karja 14 was reopened. The store was closed in November 2020, when during the COVID pandemic, the legendary location of the Suur-Karja street store became commercially problematic due to the lack of tourists. In today’s market situation, the Group again believes in the potential of this region.

- On 03.03.2023, a new Ivo Nikkolo concept store was opened in Latvia. We replaced our old Ivo Nikkolo store in the Galleria Riga shopping centre with a new Ivo Nikkolo concept store.

OVERVIEW OF BRANDS

In 2022, the Group sold almost exclusively merchandise from the Ivo Nikkolo brand. Ivo Nikkolo is one of the oldest and most unique designer brands in Estonia, founded in 1994.

Ivo Nikkolo

The process of closing down and transforming the stores of other brands owned by the Baltika Group into Ivo Nikkolo stores ended in the first half of 2022. By the end of 2022, the Ivo Nikkolo brand was represented in 25 stores across the Baltics (9 stores in Estonia, 9 stores in Latvia, and 7 stores in Lithuania). The sales revenue of Ivo Nikkolo in 2022 was 9,482 thousand euros, which increased by 38% compared to the previous year.

The renewed mission of Ivo Nikkolo is to empower, encourage, and inspire women through fashion, and to support their independence, self-confidence, and self-love. In 2022, the awareness of the completely renewed Ivo Nikkolo brand was continued through marketing campaigns and PR activities in Estonia, Latvia, and Lithuania.

In 2022, steps were also taken towards sustainability in the Ivo Nikkolo brand and processes, with a focus on supply chain and logistics. Preparation work was done to join the packaging recycling program aimed at Ivo Nikkolo's e-commerce customers and to use Low imPACK boxes made of environmentally friendly materials. In addition, in 2022, deliberate and thoughtful steps were taken to reduce the ecological footprint in the fashion industry and to focus on sustainable activities.

If in 2021, Ivo Nikkolo introduced a new direction, then the 2022 collection represented its strengths in a larger scale. The Group's goal with the Ivo Nikkolo collection is to offer products with a good price-to-quality ratio, with a unique design style characterized by minimalist yet striking femininity.

In 2022, an important focus point for product development was the precise definition of the new target group, the development of a product strategy, and its gradual implementation. For this, a broad customer survey was conducted, involving 1,700 people from all three markets. To understand the most important motivators for customers when making a purchase, their values related to buying clothes were studied. It was found that for Ivo Nikkolo customers, product quality is the most important, followed by product fit, design, and style. In addition, answers were obtained regarding the perception of quality and sustainability-related issues.

Important conclusions were also drawn from the sales results of 2021, and necessary changes were made to the collection structure to better meet customer expectations.

REVENUE

Revenue by channels

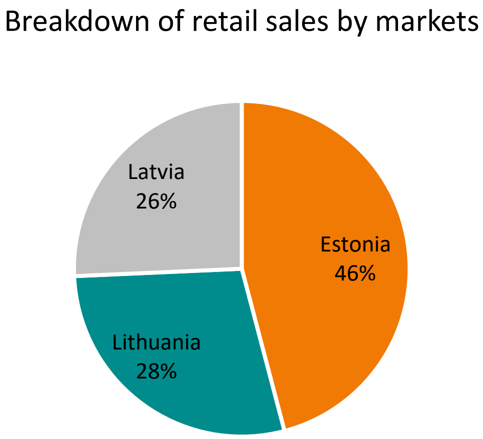
In thousands of euros	**2022**	**2021**	**+/-**
Retail	8,635	9,785	*-12%*
Business Customer sales	35	120	*-71%*
E-com sales	943	1,866	*-49%*
Total	**9,613**	**11,770**	***-18%***

RETAIL

The retail sales in 2022 were 8,634 thousand euros, which is 12% less compared to the comparable result of the previous year.

Retail sales by markets

In thousands of euros	**2022**	**2021**	***+/-***
Estonia	3,963	5,915	*-33%*
Lithuania	2,452	2,303	*6%*
Latvia	2,219	1,566	*42%*
Total	**8,634**	**9,785**	***-12%***



In 2022, the revenue in Estonia decreased by 33%, mainly due to the closure of the most unprofitable stores in the Estonian market. Retail sales in Latvia increased by 42% and in Lithuania by 6%. The revenue growth in Latvia and Lithuania is largely due to the fact that COVID restrictions were in place throughout the first quarter of 2021 in both countries. Overall, the sales efficiency in the entire retail channel decreased by 9% compared to the previous year.

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

EUR/m2	**2022**	**2021**	***+/-***
Estonia	100	107	*-6%*
Lithuania	87	103	*-16%*
Latvia	100	103	*-3%*
Total	**96**	**105**	***-9%***

STORES AND SALES AREA

As of the end of 2022, the Group had 25 stores across three countries, with a total retail space of 6,443 m2. The retail network shrunk due to the closure of stores in all Baltic markets.

Stores by markets

	31 Dec 2022	**31 Dec 2021**	**Average area change***
Estonia	9	16	-6%
Lithuania	9	9	-10%
Latvia	7	9	-9
Total stores	**25**	**34**	
Total sales area, sqm	**6,443**	**9,236**	**-10%**

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

E-STORE SALES

In 2022, the online store revenue of the Group decreased by 49% compared to the previous year, reaching 943 thousand euros. Meanwhile, the online store revenue of the Ivo Nikkolo brand increased by 5% compared to the previous year. It can be said that the year was incomparable to the previous one, as in 2022, the Group's e-shop only sold the Ivo Nikkolo brand, while at the beginning of 2021, there were several brand e-shops such as AndMoreFashion.com, and in February, the Group moved to two e-shops – IvoNikkolo.ee and Monton.ee, and from September 2021, the Group continued only with IvoNikkolo.ee e-shop. The main decline in revenue came from the Group's former brands Monton and Baltman (a 52% decrease in total sales compared to the previous year).

In 2022, one of the sales strategies for the Group's e-commerce was to have fewer discount campaigns and focus more on selling products at full price, while still participating in all major international and domestic sales campaigns in Estonia. The e-shop's discount rate improved by 4 percentage points compared to the previous year, mainly due to the implementation of an omnichannel sales strategy.

In 2022, the main focus was on developing the new Ivo Nikkolo e-commerce store. The design aimed to follow the Ivo Nikkolo brand's corporate visual identity and match the new store concept. The significant input for the development was to improve user-friendliness and offer new functionalities with the goal of enhancing the customer experience and providing a well-functioning mobile view. The aim of switching the e-commerce back-end system was to move to a modern, robust, and flexible platform. The new Ivo Nikkolo e-commerce store, IvoNikkolo.com, was launched on 22.09.2022. It is good to note that in the fourth quarter, the proportion of visits from mobile devices increased from 71% to 76% compared to the previous year, and the sales share increased from 39% to 46%. In the fourth quarter, sales in the Ivo Nikkolo brand e-commerce store grew by 21% compared to the previous year.

In 2022, the Group's e-shop was visited by 1.1 million unique visitors, with a total of 2.1 million visits. The majority of the e-shop visitors (90%) were from the Baltics. The average user of the Group's e-shop was 35-44 years old, accounting for 24% of all users, and 45-54 years old, accounting for 23% of all users.

In 2022, we saw a continued growth in the use of mobile devices, where the share of visits from mobile devices increased from 68% to 74% and the share of sales increased from 34% to 43%.

The majority of visits to the Group's e-store came from online advertising, where the visitation from digital advertising and paid search accounted for 57% of all visits (compared to 43% the previous year). Email visitation was third and its share of total visits was 13%, up 2 percentage points from the previous year.

LOYALTY PROGRAMME

The Ivo Nikkolo loyalty program includes all Baltic stores and the e-shop. The program was launched in 2014 under the name AndMore loyalty program, which at that time brought together loyal customers of all Group brands.

When in 2021 several new privileges were implemented in the loyalty program, then in 2022, the focus was slightly shifted and a program was developed for loyal customers that would be a comprehensive community of Ivo Nikkolo customers. The market was analysed, customer expectations were mapped out, and the project began with generating and testing ideas such as loyal customer shopping events, B2B collaborations, offering additional value to loyal customers, and more. The goal is to launch the project by the end of the second quarter of 2023.

As of the end of 2022, a total of 566,928 customers had joined the loyalty program, including 5,904 customers who joined during the past year. In 2022, approximately 5.6% of all customers in the Ivo Nikkolo loyalty customer base made a purchase.

OPERATING EXPENSES AND PROFIT

The Group's gross profit margin in 2022 was 51%, decreasing by 1 percentage point compared to the same period last year. The Group's gross profit in 2022 was 4,884 thousand euros, decreasing by 1,236 thousand euros compared to the same period last year (2021: 6,120 thousand euros).

The Group's distribution and administrative and general expenses decreased by 906 thousand euros and amounted to 8,536 thousand euros in 2022 (2021: 9,551 thousand euros). The largest reduction in expenses occurred in retail, with retail expenses decreasing by 635 thousand euros to 5,685 thousand euros. The Group's head office expenses decreased by 335 thousand euros, resulting from significant reduction in fixed costs.

In 2022, the Group's operating profit was 3,756 thousand euros and net profit was 3,462 thousand euros. The Group's business and net profit were significantly affected by the Group's strategic decision to sell some of the Ivo Nikkolo trademarks and continue using the trademarks under a license agreement. As a result of the sales transaction, the Group earned a one-time profit of 7,447 thousand euros, which explains the increase in business and net profit compared to the same period last year. Without the sale of the Ivo Nikkolo trademarks, the Group would have had an operating loss of 3,691 thousand euros (2021: 2,396 thousand euros) and a net loss of 3,985 thousand euros (2021: 2,791 thousand euros).

FINANCIAL POSITION

As of 31.12.2022, the Group's cash and cash equivalents balance is 222 thousand euros (compared to 614 thousand euros as of 31.12.2021). As of the end of 2022, a bank overdraft of 3,000 thousand euros had been made available, of which 2,740 thousand euros had been used.

As of 31.12.2022, the Group's trade receivables and other receivables were 6,041 thousand euros, an increase of 5,345 thousand euros compared to the end of the previous year. The increase is related to a receivable against Niul OÜ for the sale of Ivo Nikkolo trademarks, amounting to 5,756 thousand euros. Of the claim, 3,000 thousand euros are recognized as short-term and 2,756 thousand euros as long-term.

As of the end of the year, the Group's inventories totalled 1,960 thousand euros, decreasing by 531 thousand euros or 21% compared to the end of the previous year. The Group has taken a proactive stance in the current volatile market situation and is determined to avoid over-purchasing of inventories.

In 2022, the Group acquired fixed assets for a total amount of 1,264 thousand euros (compared to 369 thousand euros in the comparable period). The main investments are related to the opening of new Ivo Nikkolo concept stores. The depreciation of fixed assets amounted to 498 thousand euros. Due to significant investments in fixed assets, the residual value of fixed assets has increased by 369 thousand euros compared to the previous year, reaching 1,855 thousand euros.

As of 31.12.2022, the right-of-use assets of the Group amounted to 4,596 thousand euros. The value of right-of-use assets has decreased by 1,585 thousand euros compared to the end of the previous year. During the year, new contracts were added in the amount of 931 thousand euros, the value of right-of-use assets decreased by 2,150 thousand euros due to depreciation, and contracts worth 366 thousand euros were terminated, most of which were related to the restructuring of lease agreements for stores.

As of 31.12.2022, the total debt obligation of the Group was 9,275 thousand euros, which means an increase of 132 thousand euros compared to the previous year-end (31.12.2021: 9,144 thousand euros), including changes in the overdraft.

As of 31.12.2022, the Group's equity was 3,708 thousand euros. The Group's equity has increased by 3,461 thousand euros compared to the previous year-end (31.12.2021: 247 thousand euros), which is due to the Group's strategic decision to sell some of the Ivo Nikkolo trademarks and continue to use the trademarks under a sole license agreement. As a result of the transaction, the Group earned a one-time profit of 7,447 thousand euros, bringing the Group's equity in line with the requirement of 50% of the share capital under the Commercial Code.

As of 31.12.2022, the Group's net debt (interest-bearing liabilities minus cash and cash equivalents) was 8,053 thousand euros, which is 476 thousand euros less than at the end of the previous year (31.12.2021: 8,529 thousand euros). The net debt to equity ratio as of 31.12.2022 was 217% (31.12.2021: 3453%). The Group's liquidity ratio was 0.82 as of the end of 2022 (31.12.2021: 0.81).

CASH FLOW

The change in trade receivables and inventory was 61 thousand euros smaller in the financial year compared to the increase in trade payables. The changes in trade receivables, inventories, and payables are related to the Group's daily operations. The Group's operating cash flows were -982 thousand euros in 2022, compared to 1,464 thousand euros in the previous year.

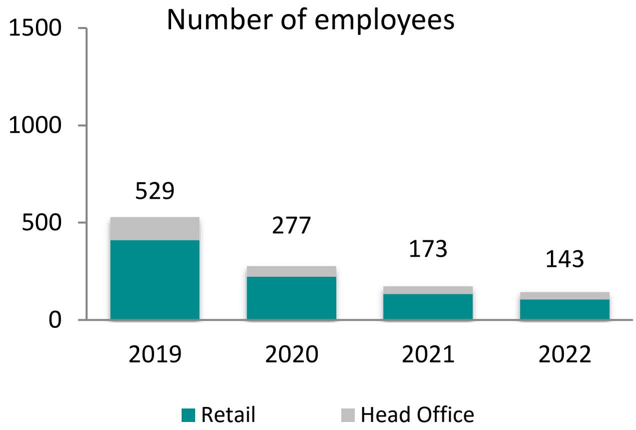
In 2022, the Group paid a total of 1,134 thousand euros for investments (2021: 369 thousand euros). The main part of the investments was made in tangible fixed assets in connection with the opening of new Ivo Nikkolo concept stores across the Baltics. During the reporting year, the Group received a total of 2,022 thousand euros from the sale of fixed assets (2021: 0 euros). The main part of the income (2,000 thousand euros) is due to the Group's strategic decision to sell some of the Ivo Nikkolo trademarks. The sale price of the trademarks was a total of 8,000 thousand euros, and according to the sales agreement, the buyer is obliged to pay the purchase price in four instalments (2,000 thousand euros in 2022, 3,000 thousand euros in 2023, and 3,000 thousand euros in 2024). In summary, the cash inflow from investing activities was 888 thousand euros in the reporting year (2021: -369 thousand euros).

In 2022, the Group received a loan of 1,500 thousand euros from its largest shareholder, KJK Fund SICAV-SIF (2021: 0 thousand euros). Loan repayments made by the Group during the reporting year amounted to 356 thousand euros (2021: 293 thousand euros). The change in the balance of overdraft was 754 thousand euros (2021: 1,985 thousand euros). Lease payments were made in the amount of 2,099 thousand euros (2021: 3,558 thousand euros), of which 1,810 thousand euros (2021: 3,284 thousand euros) were related to principal repayments and 289 thousand euros (2021: 274 thousand euros) were related to interest payments. In total, the result of financing activities was an outflow of 358 thousand euros, compared to an outflow of 1,908 thousand euros in the previous year.

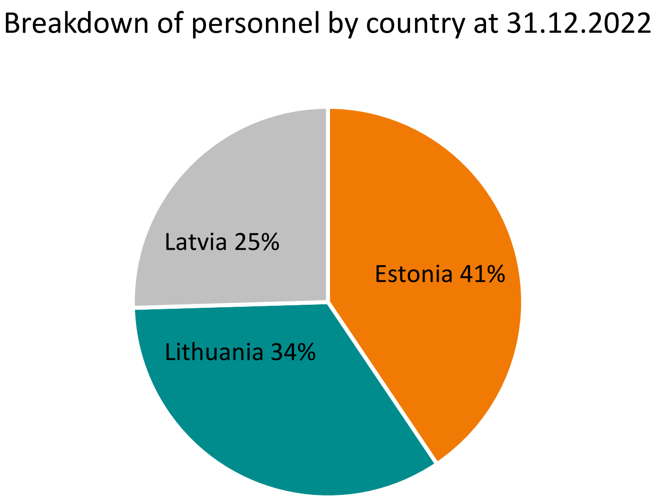
Cash and cash equivalents decreased by 392 thousand euros to 222 thousand euros in the year, and decreased by 813 thousand euros to 614 thousand euros in the comparable period.

PEOPLE

As of 31.12.2022, there were 143 employees working in the Group, which is 30 fewer than on 31.12.2021 (173). Due to the closure of stores in Estonia, the number of employees working in retail is 27 fewer.



In 2022, the Group paid a total of 3,354 thousand euros in salaries to its employees (compared to 3,999 thousand euros in 2021). The remuneration of the members of the Supervisory Board, Management Board, and Audit Committee amounted to 282 thousand euros (compared to 603 thousand euros in 2021).



OUTLOOK AND OBJECTIVES FOR 2023

Economic environment

According to the economic forecast of the Bank of Estonia, rapid inflation is hampering the growth of the Estonian economy, reducing demand both in Estonia and in export markets through a decrease in people's purchasing power. The low point of economic activity will continue in the first half of 2023, as although inflation is slowing down, it is doing so slowly, and both the rise in interest rates and the decreasing support of savings will begin to reduce consumption opportunities in the near future. The forced savings accumulated during the pandemic, as well as the money taken out of the second pillar of the pension system, which helped boost consumption until the second half of 2022 despite rapid inflation, have now been largely spent. Although the economy will improve in 2023, the growth rate of gross domestic product will remain modest.

According to the Estonian Central Bank's forecast, the economy is expected to grow by 0.4% in 2023 and 3.1% in 2024. The consumer price growth accelerated to 20% by December 2022. According to the bank's forecast, the consumer price change in 2023 will be 9.3% and 2.8% in 2024.

The rapid price increase and weakened confidence will only begin to reduce consumption. The purchasing volume in trade has slightly decreased since the summer of 2022, but it has not been proportional to the extent of price increases. A greater adjustment, including a decrease in consumption, is likely to occur in the first half of next year. The loss of demand caused by the decline in purchasing power is partially offset by the measures already implemented and planned by the government (such as family support and public sector wage increases), and the spending of war refugees also boosts retail sales. However, the consumption level in the first half of 2022 will only recover in 2024.

As economic activity slows down, some businesses are expected to lay off employees due to lower demand and significantly increased input and energy prices. This will result in a decrease in demand for labour at the beginning of 2023. Meanwhile, the supply of labour is expected to remain high, with a higher participation rate and the arrival of approximately 40 thousand Ukrainian war refugees in early 2023 and an estimated 75 thousand by early 2024. This, in turn, is expected to increase unemployment, with the unemployment rate predicted to rise to almost 9%. On the one hand, higher unemployment will lead to a decrease in wage growth, but on the other hand, fast price increases, as well as increases in the minimum wage and public sector wages, will counteract this trend.

Price growth slows down, but persistently. The slowdown in consumer price growth is aided by the government's energy price compensation package in place until April 2023. In the longer term, price growth will be curbed by the rise in interest rates resulting from tighter monetary policy, as well as a cooling economic environment - slower wage growth, higher unemployment, and resulting weaker demand pressure on prices. The impact of monetary policy is somewhat offset by the amount of money injected into the economy through the budget deficit, which helps to sustain demand and thus raises prices.

The mentioned events have a significant negative impact on the Group's future activities and financial condition, but it is difficult to estimate the extent of their impact. The future economic situation and its impact on the Group's operations may differ from management's expectations.

Baltika Group

In 2023, we will continue to implement the updated 2025 strategy.

- We will focus on the Group's core markets (Estonia, Latvia, and Lithuania), especially on increasing efficiency in retail stores and e-commerce sales volumes in the Baltic States and Finland.
- We will continue to open Ivo Nikkolo stores with the new concept, aiming to open 1-2 new stores in existing locations.
- The new concept Ivo Nikkolo stores opened in 2022 have shown a growth trend in sales efficiency, which is a positive signal to potential franchise partners, whose search we will start in 2023.
- We will focus on increasing Ivo Nikkolo brand awareness and loyalty in the Baltics.
- We will continue to implement the Ivo Nikkolo product strategy developed in 2022. The new Ivo Nikkolo design handwriting and quality level have now been established, allowing us to offer even more suitable products to customers and increase sales.
- The product strategy developed in 2022 includes sustainability goals in product development and supply chains, and in 2023 we will expand the sustainability strategy to the entire business.
- Strategic growth in e-commerce will be the focus in 2023 and in the following years. The new e-commerce store, with positive customer feedback, will allow us to increase Ivo Nikkolo brand awareness outside the Group's core markets. In addition to increasing sales through the brand's e-commerce store, we also plan to enter international Marketplace-type platforms to more forcefully introduce the Ivo Nikkolo brand to international markets.
- In 2023, our goal is to grow profitably - both by increasing gross profit and optimizing costs. Our aim is to ensure the right product in the right place at the right time and at the right cost. To achieve this, we will focus on improving business processes, optimizing resources (including human resources), using

technology and artificial intelligence in daily decision-making, and optimizing logistics (both inbound and outbound) costs.
- People are what drive the company forward, so in 2023 we will focus even more on culture, motivation, and recognition. We will continue to develop bonus systems that support the goal of profitable growth and the principle of sharing success.

BALTIKA SHARE

The Parent Company'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.

The Parent Company'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 or extend such agreements.

Shares

The Parent Company has 54,079,485 ordinary shares with a nominal value of 0.1 euros per share.

Ordinary shares

The Parent Company's 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 the Parent Company's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Information on listed ordinary shares

NASDAQ symbol: BLT1T
ISIN number: ISIN EE3100145616
Minimum number of shares to trade: 1
Number of shares: 54,079,485
Nominal value of share: 0,1 euro
Votes per share: 1

Share price and trading

In 2022, the stock price fell by 43% to 0.15 euros. The Group's market value at the end of the year was 8 million euros. During the same period, the Tallinn Stock Exchange's general index, OMX Tallinn, fell by 11.71%.

Share trading history

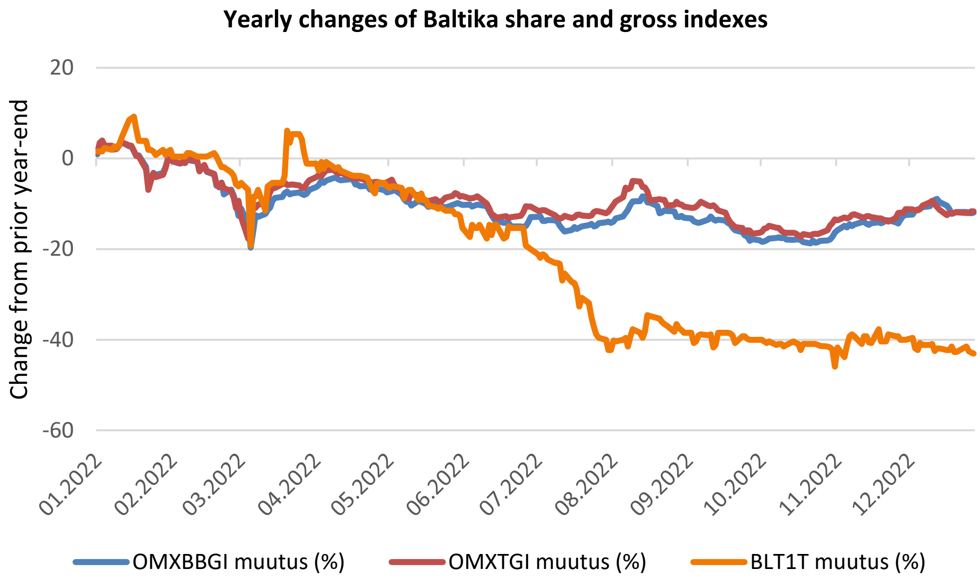
EUR	**2018**	**2019**	**2020**	**2021**	**2022**
High	0.28	1	0.544	0.465	0.29
Low	0.16	0.1	0.08	0.25	0.14
Average	0.22	0.55	0.18	0.2	0.20
Year-end price	0.16	0.14	0.41	0.26	0.15
Change %	-36%	-16%	204%	-15%	-43%
Traded volume (pieces)	5,597,022	5,116,639	3,315,068	2,244,400	824,791
Turnover, in millions	1.04	0.86	0.61	0.78	0.17

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 31.12.1999. 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 the end of 2022, Baltika's share was included in the following general indices:

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



2022 Consolidated Annual Report (in thousands of euros)

Shareholders structure

At the end of 2022, AS Baltika had 2,684 shareholders. The number of shareholders increased by 53 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 Dec 2022

	Number of shares	Holding
ING LUXEMBOURG S.A.	48,526,500	89.73%
AS Genteel	1,297,641	2.40%
Clearstream Banking AG	1,069,624	1.98%
AB SEB BANKAS	349,730	0.65%
Kaima Capital Eesti OÜ	231,578	0.43%
SWEDBANK AS, LATVIA	152,831	0.28%
Tarmo Kõiv	114,002	0.21%
PAAVO KAIS	108,000	0.20%
Others	2,229,759	4.12%
Total	**54,079,485**	**100%**

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 Dec 2022

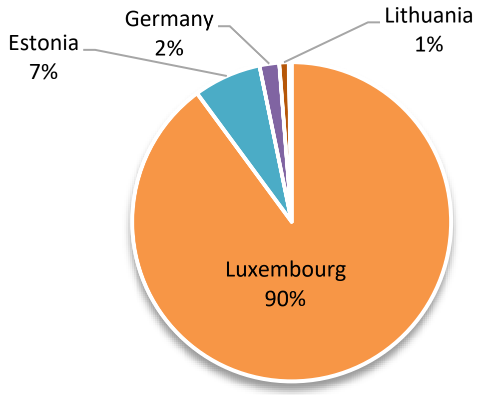
	Number of shares	Holding
Legal persons	52,347,869	96.80%
Individuals	1,731,616	3.20%
Total	**54,079,485**	**100%**

Shareholder structure by size of holding as at 31 Dec 2022

Holding	Number of shareholders	Percentage of shares	Number of shares	Percentage of voting rights
> 10%	1	0.04%	48,526,500	89.73%
1.0 – 10.0%	2	0.07%	2,367,265	4.38%
0.1 – 1.0%	7	0.26%	1,108,899	2.05%
< 0.1%	2,674	99.63%	2,076,821	3.83%
Total	**2,684**	**100%**	**54,079,485**	**100%**

2022 Consolidated Annual Report (in thousands of euros)

Shareholder structure by country at 31.12.2022



Share capital

Baltika share capital was 5,407,949 euros throughout 2022.

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
31.12.2015				**40,794,850**	**8,159**	**496**
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	
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**
31.12.2021				**54,079,485**	**5,408**	**0**
31.12.2022				**54,079,485**	**5,408**	**0**

Dividends

According to the Group's dividend policy, no dividends will be paid until the Group has achieved a strong financial position and sufficient investment capability. One indicator of a strong financial position is a net debt-to-equity ratio below 50% and the availability of adequate cash resources (cash equivalents minus utilized overdrafts minus short-term loan obligations is greater than 1% of the total number of shares). In addition, the actual dividend rate depends on the Group's cash flows and development prospects, as well as their financing needs.

Once the aforementioned financial position has been achieved, the Group will specify the specific rate of profit to be paid as dividends.

As the decision of the Annual General Meeting held on April 12, 2019, according to item 7 of the agenda, the Parent Company 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.

The Parent Company is in reorganisation and until finalising the reorganisation plan, no dividend can be paid to Shareholders

The Group earned a net profit of 3,462 thousand euros in 2022. The Group's board proposes to the general meeting of shareholders not to pay dividends to ordinary shareholders this year. Dividends were also not paid last year.

For dividend history and ratios, please refer to the Key share data table.

2022 Consolidated Annual Report (in thousands of euros)

SOCIAL RESPONSIBILITY REPORT

The foundation of the Group's business operations is transparent behaviour. In its daily activities, the Group values social responsibility and environmental impact management. A more comprehensive coverage of the natural environment (production, supply, material and resource management) and social aspects (employees, human rights, transparent management) associated with the Group's activities in the annual report confirms the willingness to contribute substantively in these areas.

The Group contributes to the promotion of socially important areas through various projects. The environmental dimension is integrated into the Group's management system, and the daily work of different units is organized as environmentally friendly as possible.

The Group cares about its employees and has strategically prioritized their appreciation. The Group's goal is to ensure that social and environmental principles and requirements set by the Group are consistently followed throughout the supply chain.

EMPLOYEES

The Group is an international organization that supports diversity and different cultures and nationalities. We value transparency and reliability in communication with our employees.

As of 31.12.2022, the Group had 143 employees, which is 30 fewer than on 31.12.2021 (173). Of these, 106 (as of 31.12.2022) worked in retail (133 on 31.12.2021) and 37 (as of 31.12.2022) worked at the head office (44 on 31.12.2021).

The number of people working in different markets is distributed as follows: 43 in Estonia (64 on 31.12.2021), 27 in Latvia (33 on 31.12.2021), and 36 in Lithuania (37 on 31.122021).

In 2022, the Group employed:

- 96% women and 4% men.
- Speakers of 7 different native languages, with 6 languages in constant use as work languages.
- The average age was 39, with the youngest being 17 and the oldest being 75.
- The average length of service was 6.8 years, with the longest being 47 years.

Baltika Group's personnel by units and markets

	Personnel 31.12.2022	%	Men (%)	Woman (%)	Start working in 2022	Left during 2021
Baltika AS	37	25.87%	3.50%	22.38%	8	16
Retail	106	74.13%	0.70%	73.43%	104	131
Estonia	43	30.07%	0.00%	30.07%	35	58
Lithuania	27	18.88%	0.70%	18.18%	24	27
Latvia	36	25.17%	0.00%	25.17%	45	46
GROUP	**143**	**100%**	**4.20%**	**95.80%**	**112**	**147**

Changes in the organizational structure

In 2022, the Group's workforce decreased by 17% compared to the previous year, mainly due to the final stage of the restructuring strategy - the last unprofitable stores in the Estonian market were closed. Flavio Perini, the Chairman of the Board of the Group, left the Board in June, and Margus Olesk, the Group's CFO, joined the Board on November 1. The two-member Management Board focused on achieving a sustainable business model in the first half of the year, and on improving the efficiency of the management structure, supply chain, and store chain in the second half of the year. The composition of the management team remained mostly the same in 2022, and a new Marketing and Communications Director joined in December, whose task in 2023 will be to significantly increase the brand awareness of Ivo Nikkolo.

Group as an employer

In 2022, the Group focused on building relationships with its employees in all Baltic countries due to the war in Ukraine, which significantly increased employee insecurity. Temporary changes in local customer priorities and later a halt in the flow of tourists from neighbouring countries hindered the opportunity to increase sales, which in turn reduced employees' faith in the future. In addition, in the second half of the year, there were extreme price increases in household goods, which put significant pressure on the Group to strengthen employee performance-based pay systems, which will certainly continue in 2023.

Flexible working methods, with an emphasis on personal accountability and efficiency management, were continued in 2022 during the COVID-19 pandemic. At the end of the year, several head office teams began to measure working hours in detail, and in 2023, other strategies for managing working hours and workload will be tested. In order to increase synergy in remote work and maintain a sense of unity among teams working at a distance, internal communication was heavily developed in 2022, and opportunities for joint decision-making and activities were found.

In the retail chain, the focus continued on developing the skills of store employees from the first day of work, and through properly selected and well-trained satisfied employees, service quality was improved. Despite significantly reduced training costs, annual comprehensive service training programs were started, and the foundation was laid in 2023 for skills-based certification of store personnel.

Group values

In difficult times, company values guide employees and help them stay on the right track. Everyone has a chance to understand why they work in this company and what we all have in common. 2022 saw Baltika Group finalise redefining company values, a project that got kicked off already in 2021 when every employee had a chance to chip in. The final result gives the Group core values which are future proof and in line with strategic company goals.

The employees decided that we:

- **Create with passion**, because what we do is important to us.
- **Act with responsibility,** both in business and in life.
- **Value teamwork,** because our success depends on all of us.
- **Encourage personal growth**, because our standards are high.
- **Commit to customers**, because customers are the centre of our business.

In 2023 we will continue to bring our values more and more into our every one of our daily activities and decisions.

CUSTOMER EXPERIENCE MANAGEMENT

In 2022, the Group opened four new Ivo Nikkolo stores with a new retail concept in Riga's Spice and Plaza shopping centres, Tallinn's Rotermann Quarter, and Vilnius's Panorama shopping centre. The new concept provides customers with a modern shopping experience that showcases Ivo Nikkolo products and enables better customer service. Screens installed at the entrances of the stores provide customers with additional information and inspiration, while also reducing the production of single-use marketing materials.

In addition to the significant updates, the interiors of the Ivo Nikkolo stores in Tartu Kaubamaja and Riga's Alfa shopping centre were refreshed, and the Ivo Nikkolo Outlet in the Arsenal shopping centre was opened.

Service

In 2022, the systematic implementation of service standards and mystery shopping continued in Ivo Nikkolo stores. With the support of ongoing service training and mentoring, the overall mystery shopping score increased by 12 percentage points compared to 2021.

Since the level of service in Ivo Nikkolo stores is influenced not only by the sales skills of the consultants, but also by their knowledge of the products being sold, collection training was expanded on a larger scale. Through both classroom and e-learning, service consultants were provided with knowledge on upcoming models, materials, maintenance, trends, and styling.

E-com

In September 2022, a new platform was launched for the Ivo Nikkolo online store, offering customers a completely new and modern shopping experience. Compared to before, various payment options were added, including the option of instalment payments, product descriptions were significantly expanded, and customers now have significantly better opportunities to browse products in the online store. In 2023, development of new functionalities will continue to further improve the customer experience in the online store.

The presence of Click&Collect lockers in Ivo Nikkolo's new retail concept stores will definitely make it easier for customers to receive the package, where the customer can quickly and conveniently receive what he ordered. Click&Collect cabinets are part of Ivo Nikkolo's new concept, and in 2023 the addition of cabinets to stores with the new concept will continue.

HUMAN RIGHTS

The 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, the Group's expectations for its suppliers are described in the Supplier Manual. In establishing the principles, the Group has been guided by the International Code of Ethical Trading Initiative (ETI), established by the International Labour 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 SPONSHORSHIP

The Group values Estonian entrepreneurship and wishes to support the activities of start-up companies that promote sustainable business operations. In 2022, the group became the first Estonian company in its field to join the innovative e-commerce packaging circulation system, Low imPACK.

In the same year, the Group offered a total of five interns the opportunity to join the group's business challenges and gain a motivating and developmental internship experience with the support of industry professionals. The areas where the interns joined were team management (1 intern), technical design (3 interns), and graphic design (1 intern).

MANAGEMENT OF ENVIRONMENTAL IMPACTS

General management of environmental aspects

The 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 the 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

At the core of the Group's business is the product. The Group's product offering is continually improved to meet and exceed customer expectations. Supply chain development is one of the most critical parts of the product development to ensure the best product offer for customers and increased availability in all channels.

Flexible, efficient and effective logistics and distribution are essential to providing the best customer experience. We are constantly working towards more responsible inventory management, which aligns with our business and sustainability goals. In 2022, we focused on optimizing transport and logistics and will continue with this focus in 2023. The Buying and Supply Chain Department of the Group, in cooperation with the Inventory Management Department, and our logistics partners, has further enhanced the processes to ensure the availability of products at the right time, at the right place and at the right price. In 2022, the Logistics Department became a part of the Purchasing and Supply Chain Department, which has allowed us to organize and monitor the transportation of goods more closely, increasing our precision and contributing to more efficient use of resources. In 2023, we will continue working on our logistics strategy, the approval of which is planned for the end of the second quarter. In addition, we are continuously working on more responsible stock management aligned with our commercial objectives and sustainability goals.

The Group regards suppliers as strategic partners, and the supply chain has a global presence. Close cooperation and committed relationships with partners involved in the entire value chain are fundamental to creating the products, their longevity and their quality. In 2022 we emphasized the stability of the supply chain by taking steps to evaluate, assess, and verify potential risks in our supply chain through supplier selection, onboarding, and supply chain management process. In the first quarter of 2022, we continued the in-depth analysis of the supply base, and the creation of a new strategy. In 2022, we also set new intake margin targets for the 2023 collection products, which required changes in the supply base and strategy.

As a result of the new objectives and supply chain analysis, we stopped working with suppliers lacking in value offer. Instead, we started cooperation with new supply base development and new partners in several regions. As a result, we increased the share of productions in Asia, where long-term and dedicated suppliers align with our business goals, and the products meet the technical and quality standards of the Ivo Nikkolo collection.

In 2023, we will continue to develop a risk management plan to mitigate supply chain disruptions and quality issues by identifying potential risks and strategies to minimize them.

The Group values transparency in the entire supply chain and considers it essential that all parties involved behave ethically and responsibly. We share Baltika Group's fundamental values in the Supplier Manual to create long-lasting collaboration with suppliers. In 2022, we started working on developing, strengthening and updating the processes and rules set out in the Supplier Manual, and will continue to do so in the first half of 2023. Our goal is to transition all suppliers to working on the new Supplier Manual by the end of the second quarter.

Keeping a curated supplier network is critical to the goals and success of the Group. Therefore, we will continue to invest in our relationships with suppliers to improve all areas of the supply chain.

PRODUCTS AND QUALITY

The Product Development Department collaborates with stores and retail teams, organizing regular store visits and exchanging daily digital feedback, which allows us to analyze and quickly respond to customer feedback and expectations. In addition, we are actively searching for increasingly sustainable materials and engaged in developing and creating sustainable production processes, which contribute to raising quality standards and advancing the circular economy model in the company.

Traceability is the cornerstone to ensuring compliance with the Group's sustainability standards and requirements. In 2023, there will be an even greater focus on traceability at different production levels and processes. This allows us to ensure compliance with social and environmental criteria regarding the materials and factories used to produce our products.

The product development department pays more and more attention to the testing of clothing materials and quality assurance analysis daily, thereby ensuring a more durable and sustainable product.

As the high quality of our products is particularly highly valued at the Group, we continually improve our quality management and control processes. A high-quality garment has a longer lifespan and allows long-term use and circulation, one of the most critical environmental factors in the clothing and fashion industry. In connection with quality assurance, we have enhanced the quality control of the final product at our cooperation partners, and we perform quality control on the finished product before sending the goods to the customer.

Time, materials, and transportation costs have been reduced, taking us another step closer to having a lesser environmental impact in the product development process.

We have fully implemented and integrated 3D development into our product development process, which gives us significant value in analyzing the capabilities of our partners in the development of the supply base. In addition, digital product development has also reduced the number of physical samples by more than 50% of the total volume of the collection, compared to the 30% volume of 3D product development in 2021. Furthermore, we have saved product development costs to the extent of 8.5 thousand euros and saved material consumption of more than 500 meters during the year 2022.

USE OF MATERIALS AND RESOURCES

The Group values sustainable and transparent mindset, which is why in 2022 we continued the development of the sustainability strategy and aligning it with the practices used on the market.

From the perspective of collection development Ivo Nikkolo wishes to make contributions towards the creation of more sustainable product by offering high quality product and timeless design handwriting.

Choice of materials has always been important for Ivo Nikkolo. Out of natural materials, wool, cashmere, silk, cotton, and linen were used in 2022. From synthetic materials, we used for example polyester and viscose, whilst we are aiming to use more and more of environmentally sound and ethical materials. When it comes to petroleum based materials we aimed to avoid virgin polyester and among cellulose based materials we made an effort to opt for materials with less of an environmental impact.

In order to better systemise these types of choices, in 2022 a library of conscious materials was created which describes a list of materials accepted as more sustainable options in Ivo Nikkolo collection. Starting from 2022 we consider as more environmentally sound materials, ones that are certified, recycled or follow the ethical standards. The goal of the Group is to offer 15% of clothing collection using such materials. For example, in spring summer collection we used: organic cotton, BCI (Better Cotton Initiative) cotton, Tencel and recycled polyester. In autumn winter collection we additionally used recycled cashmere, recycled wool, recycled polyamide and as an insulator we used Sarona and RDS (Responsible Down Standard) down.

In accessories collection mostly natural materials are used to allow best possible comfort, fit and durability. Among others, leather, wool, cotton, silk and cashmere can be found in the accessories collection. Some of our partners producing the accessories use leather which has the golden standard from the Leather Working Group.

In 2022 the Group also started a project which will allow to recognize the conscious products in the retail space and online. In 2023 the clients will be able to learn about the more environmentally sound materials in each product on Ivo Nikkolo web-page.

An environmentally sustainable approach is also applied to product packaging. For example:

- Ivo Nikkolo’s hanging paper tags are made from recycled paper.
- The Group generally does not purchase transport packaging itself, but uses packaging boxes that came with the goods from suppliers. Guidelines for packaging are described in the Supplier Manual for suppliers.

In addition to the reuse of furniture and packaging materials, efficient use of inventory and materials is also important (for example, fabric samples are largely distributed to art schools and kindergartens).

CORRUPTION

In the Group, the topic of corruption is regulated by the 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 2022 there were no registered corruption cases, fair trade or ethics or any other similar violation in the Group.

CORPORATE GOVENRANCE 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 2022, 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 comply with this requirement in 2022. The general meeting was not convened, and therefore neither the board, the council, nor the auditor 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.

In 2022, one general meeting was held for the shareholders. The general meeting was not convened, and the voting period for the general meeting was from June 16th to June 22nd, 2022. The decisions of the general meeting were voted on by 3 shareholders, whose shares accounted for 48,863,078 votes or 90.35% of the total share capital. If a shareholder did not vote, it was counted as a vote against.

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.

As Baltika’s General Meeting was 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 of the management board and other compensations are set out in contracts with the members of the management board. The remuneration report provides information on the remuneration and benefits paid to the management board members of the parent company. When determining the remuneration (both base and additional), the prevailing practice in the company, its strategy, short- and long-term goals, financial indicators, as well as the tasks and responsibilities of each management member are taken into account. The remuneration must be competitive to retain professional and competent top management.

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 2022 nor 2021 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. On June 27th, 2022, the general meeting of shareholders of AS Baltika elected KPMG Baltics OÜ as the auditor to carry out the audit for the 2022-2023 financial year. The signatory of the independent auditor's report is the responsible auditor Indrek Alliksaar. The selection of the auditor firm is made based on the best quality and price ratio of the audit proposals received - the auditor's independence is ensured by following the rotation rules applicable to European Union listed companies.

The audit fee is fixed in an agreement which is concluded by the Management Board. In the notice of the Annual General Meeting, the 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 §24^2 (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.

The Annual General shareholder's meeting was held in 2022 without convening a meeting, and voting took place between June 16 and June 22, 2022 (inclusive). The resolutions of the general meeting was voted on by 3 shareholders, whose shares represented 48,863,078 votes, or 90.35% of the total share capital. If a shareholder did not vote, it was counted as a vote against. The general meeting approved the 2021 annual report of the Baltika Group, the consolidated net loss for 2021, and the appointment and remuneration policy of the auditor.

Shareholders with significant share of AS Baltika's ordinary shares at the end of 2022 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 2022.

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.

AS Baltika's Supervisory Board members for 2022 are Kristjan Kotkas (Chairman of the Board), Jaakko Sakari Mikael Salmelin, Reet Saks and Lauri Kustaa Äimä.

Supervisory Board member Lauri Kustaa Äimä owns 231,578 ordinary shares of AS Baltika i.e. 0.4% as at the end of 2022.

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.

AS Baltika's Audit Committee members for 2022 are Maigi Pärnik-Pernik and Marin Käärik-Anton.

The remuneration of the Audit Committee members is 150 euros per month.

In 2022 the audit committee gathered for 2 separate meetings.

Information in public interest entities Management report regarding services from auditor

During 2022 the auditor of AS Baltika has not provided additional services to the Group.

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: Brigitta Kippak and Margus Olesk.

On 21 June 2022, the Supervisory Board of AS Baltika announced the resignation of Flavio Perini as the CEO and Member of the Management Board, which was agreed upon by both parties. On the same day, the Supervisory Board appointed Brigitta Kippak as the new CEO, who had previously served as the Company's Operational Director and Member of the Management Board.

On October 17, 2022, during the Supervisory Board meeting, Margus Olesk was appointed as a new member of the AS Baltika Management Board, with his term starting on 1 November 2022. Margus Olesk is a member of the Management Board of Baltman OÜ and a member of the Supervisory Boards of Baltika Latvija SIA and Baltika Lietuva UAB. He also owns the company OÜ Linnuke Õlal, where he serves as a member of the Management Board.

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 the Group.

REMUNERATION REPORT

According to the Securities Market Act §135[3], a listed company is obligated to submit a remuneration report regarding the remuneration and principles of remuneration paid to members of the issuer's management board during the reporting year.

In this Baltika AS remuneration report, information on the salaries and benefits paid to Baltika AS Management Board members is disclosed. When determining the remuneration (basic and additional), the prevailing practice, strategy, short- and long-term goals, financial indicators, and the tasks and responsibilities of each management member are taken into account. The remuneration must be competitive to retain professional and competent top executives.

The objective of the remuneration policy is to ensure the protection of the company's long-term goals and interests, as well as sustainability. The remuneration report is prepared and submitted to the shareholders for approval at the annual general meeting. This remuneration report is an integral part of the annual report.

Remuneration of Management Board

2022

In 2022, the Group's Management Board consisted of two members. The remuneration of board members is paid in accordance with the board member's contract. No performance-based bonuses are provided to board members.

2021

In 2021, the Group's Board of Directors consisted of two members. The members of the Management Board are remunerated in accordance with their contracts. According to the contract, the members of the Management Board are paid a remuneration and have the possibility to receive a performance bonus once a year based on the achievement of specific, comparable and predetermined targets for the Group's financial performance in the previous year and the achievement of long-term strategic objectives.

The Chairman of the Management Board is paid an annual bonus by the Company of 3% of the audited EBITDA for the year observed (excluding the impact of IFRS16). The payment of the bonus is conditional on the company having a positive operating profit for the year indicated, both with and without the impact of IFRS 16. The annual bonus is capped at 65% of the director's annual remuneration.

The performance bonus is paid annually, with the first performance bonus for the Board of Directors being determined by the Supervisory Board and the other members of the Board of Directors receiving a performance bonus based on the Company's Management Team performance bonus policy. Management Team performance bonuses are based not only on corporate performance but also on personal targets agreed in accordance with the Board member's area of responsibility and focus activities for the year. The performance bonus is normally paid once a year after approval of the annual report.

The fund of the 2021 management bonus scheme is 20% of the annual salary of each member of the management team.

The maximum amount of the bonus for each member of the Management Team is 20% of his/her annual salary, based on actual payments made in 2021. The main condition for the payment of any bonus is the achievement of the company's EBITDA target (excluding IFRS 16)

2022 Consolidated Annual Report (in thousands of euros)

Gross remuneration paid to the Members of the Management Board in 2018-2022

Maigi Pärnik-Pernik (until 22.05.2020)	**2018**	**2019**	**2020**	**2021**	**2022**
Basic salary	73	87	43	-	-
Performance pay	0	0	0	-	-
Total remuneration	**73**	**87**	**43**	-	**-**
Share of performance pay	0%	0%	0%	-	-

Mae Leyrer (until 22.05.2020)	**2018**	**2019**	**2020**	**2021**	**2022**
Basic salary	-	80	45	-	-
Performance pay	-	0	0	-	-
Total remuneration	**-**	**80**	**45**	-	**-**
Share of performance pay	-	0%	0%	-	-

Triinu Tarkin (until 04.06.2021)	**2018**	**2019**	**2020**	**2021**	**2022**
Basic salary	-	-	5	25	-
Performance pay	-	-	0	0	-
Total remuneration	**-**	**-**	**5**	**25**	-
Share of performance pay	-	-	0%	0%	-

Flavio Perini (until 20.06.2022)	**2018**	**2019**	**2020**	**2021**	**2022**
Basic salary	-	-	129	238	95
Performance pay	-	-	0	125	0
Total remuneration	**-**	**-**	**129**	**363**	**95**
Share of performance pay	-	-	0%	34%	0%

Brigitta Kippak (from 01.06.2021…)	**2018**	**2019**	**2020**	**2021**	**2022**
Basic salary	-	-	-	35	59
Performance pay	-	-	-	6	0
Total remuneration	**-**	**-**	**-**	**41**	**59**
Share of performance pay	-	-	-	15%	0%

Margus Olesk (rom 01.11.2022…)	**2018**	**2019**	**2020**	**2021**	**2022**
Basic salary	-	-	-	-	10
Performance pay	-	-	-	-	0
Total remuneration	**-**	**-**	**-**	-	**10**
Share of performance pay	-	-	-	-	0%

Comparison of annual salaries[1] and performance (2018 – 2022)

	2018	**2019**	**2020**	**2021**	**2022**
Revenue	44 691	39 630	19 481	11 770	9 613
EBITDA	-1 609	3 806	6 549	1 197	6 553[2]
Total salary costs of the Group (gross)	6 936	7 071	3 785	2 424	2 372
Average monthly gross salary per employee	7	9	11	12	18
Average number of employees[3]	1 001	749	347	204	135
The remuneration (gross) of the members of the Management Board of AS Baltika					
Maigi Pärnik-Pernik (until 22.05.2020)	73	87	43	-	-
Mae Leyrer (until 22.05.2020)	-	80	45	-	-
Triinu Tarkin (until 04.06.2021)	-	-	5	25	-
Flavio Perini (until 20.06.2022)	-	-	129	238	95
Briggita Kippak (from 01.06.2021)	-	-	-	35	59
Margus Olesk (from 01.11.2022)	-	-	-	-	10

[1]The disclosed remuneration in the table is presented in gross and does not include any other remuneration (performance bonuses, bonuses, sick pay, severance pay, and fringe benefits).

[2]In 2022, EBITDA without the effect of the Ivo Nikkolo trademark sale was -883 thousand euros.

[3]Average number of full-time employees

2022 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2022	31 Dec 2021 Restated
ASSETS			
Current assets			
Cash and cash equivalents	5	222	614
Trade and other receivables	6	3,285	696
Inventories	7	1,960	2,491
Total current assets		**5,467**	**3,801**
Non-current assets			
Deferred income tax asset	8	91	80
Trade and other receivables	6	2,756	0
Other non-current assets	9	107	172
Property, plant and equipment	10	1,269	855
Right-of-use assets	12	4,596	6,181
Intangible assets	11	586	631
Total non-current assets		**9,405**	**7,919**
TOTAL ASSETS		**14,872**	**11,720**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	13	3,096	364
Lease liabilities	12	1,813	2,009
Trade and other payables	14,15	1,741	2,329
Total current liabilities		**6,650**	**4,702**
Non-current liabilities			
Borrowings	13	1,070	2,425
Lease liabilities	12	3,296	4,346
Trade and other payables	14,15	147	0
Total non-current liabilities		**4,513**	**6,771**
TOTAL LIABILITIES		**11,163**	**11,473**
EQUITY			
Share capital at par value	16	5,408	5,408
Reserves	16	4,431	4,431
Retained earnings		-6,130	-9,592
TOTAL EQUITY		**3,709**	**247**
TOTAL LIABILITIES AND EQUITY		**14,872**	**11,720**

The Notes presented on pages 39-91 are an integral part of these Consolidated Financial Statements

2022 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2022	2021 Restated
Revenue	17,18	9,613	11,770
Cost of goods sold	19	-4,729	-5,650
Gross profit		**4,884**	**6,120**
Distribution costs	20	-7,275	-7,975
Administrative and general expenses	21	-1,262	-1,467
Other operating income (-expense)	23	7,408	926
Operating profit (-loss)		**3,755**	**-2,396**
Interest income	25	64	0
Interest expense	25	-368	-330
Profit (-loss) before income tax		**3,451**	**-2,726**
Income tax income (expense)	26	11	-65
Net profit (-loss) for the reporting period		**3,462**	**-2,791**
Total comprehensive income (-loss) for the period		**3,462**	**-2,791**
Earnings per share, calculated based on the net profit (-loss) for the reporting period, EUR	27	0.06	-0.05
Diluted earnings per share, calculated based on the net profit (-loss) for the reporting period, EUR	27	0.06	-0.05

The Notes presented on pages 39-91 are an integral part of these Consolidated Financial Statements

2022 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2022	2021 Restated
Cash flows from operating activities			
Net profit (-loss)		3,462	-2,791
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	10,11,12, 20,21	2,650	3,601
Gain (loss) from sale, impairment of PPE, non-current assets, net		122	-148
Gain from sale of intangible assets	11	-7,447	0
Changes in working capital:			
Change in trade and other receivables	6	-25	121
Change in inventories	7	531	976
Change in trade and other payables	14	-568	-690
Interest expense	25	368	330
Interest income	25	-64	0
Income tax expense	8,26	-11	65
Net cash generated from operating activities		**-982**	**1,464**
Cash flows from investing activities			
Acquisition of PPE, intangibles	10,11	-1,134	-369
Proceeds from disposal of intangible assets	24	2,000	0
Proceeds from disposal of PPE		22	0
Net cash used in investing activities		**888**	**-369**
Cash flows from financing activities			
Received borrowings	13	1,500	0
Repayments of borrowings	13	-356	-293
Interest paid		-76	-34
Change in bank overdraft	13	754	1,985
Other payments from financing activities		-21	-8
Repayments of lease liabilities, principle	12	-1,810	-3,284
Repayments of lease liabilities, interest	12	-289	-274
Net cash generated from (used in) financing activities		**-298**	**-1,908**
Total cash flows		**-392**	**-813**
Cash and cash equivalents ta the beginning of the period	5	**614**	**1,427**
Cash and cash equivalents at the end of the period	5	**222**	**614**
Change in cash and cash equivalents		**-392**	**-813**

The Notes presented on pages 39-91 are an integral part of these Consolidated Financial Statements

2022 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
Balance as at 31 Dec 2020	**5,408**	**3,931**	**-6,627**	**2,712**
Net profit (-loss) for the reporting period	0	0	-2,900	- 2,900
Total net profit (-loss) for the reporting period	**0**	**0**	**-2,900**	**-2,900**
Increase of subordinated loan	0	500	0	500
Balance as at 31 Dec 2021	**5,408**	**4,431**	**-9,527**	**312**
Correction of errors	0	0	-65	-65
Restated balance as at 31 Dec 2021	**5,408**	**4,431**	**-9,592**	**247**
Net profit (-loss) for the reporting period	0	0	3,462	3,462
Total net profit (-loss) for the reporting period	**0**	**0**	**3,462**	**3,462**
Balance as at 31 Dec 2022	**5,408**	**4,431**	**-6,130**	**3,709**

Additional information on changes in share capital and equity is presented in Note 16. Additional information on error corrections is provided in Note 3.

The Notes presented on pages 39-91 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 (hereinafter referred to as the Group), whose parent company is AS Baltika (hereinafter referred to as the Parent Company), is engaged in international clothing trade. The Group develops and operates the clothing brand Ivo Nikkolo. The Group uses a business model that combines the creation of clothing collections, supply chain management, and wholesale and retail trade. As of the end of 2022, Baltika had 25 stores in three markets (compared to 34 stores in three markets at the end of 2021) located in Estonia, Latvia, and Lithuania. The number of employees in the Group as of 31.12.2022, was 143 (compared to 173 as of 31.12.2021).

AS Baltika shares are listed on the Nasdaq Tallinn stock exchange. The largest shareholder of AS Baltika, who owns over 20% of the shares (see Note 16), is KJK Fund Sicav-SIF (in ING Luxembourg S.A. account).

AS Baltika (hereinafter referred to as the Parent Company) (registry code: 10144415, address: Valukoja 10, Tallinn, Republic of Estonia) is registered in the Republic of Estonia and operated in Estonia, Latvia, and Lithuania in 2022.

The consolidated annual report for the financial year ended 31.12.2022, includes consolidated financial statements of the Parent Company and its subsidiaries OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva (see Note 29 for the Group's structure).

The Management Board of AS Baltika authorised these consolidated financial statements on 27 April 2022. 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 2022 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 historical cost. 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.

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 is euro. All amounts are rounded to the nearest thousand, unless otherwise indicated.

New standards, interpretations and amendments

Changes in accounting principles

The accounting principles used in these financial statements are the same as those applied in the Group's consolidated financial statements as of the end of 31.12.2021. The following are changes to standards that the Group has implemented in the current reporting period.

COVID-19-Related Rent Concessions beyond 30.06.2021 (amendment to IFRS 16)

(Effective for annual periods beginning on or after 1.04.2021; to be applied retrospectively. Early application is permitted)

In May 2020, COVID-19-Related Rent Concessions (the 2020 amendments) were issued, which amended IFRS 16 Leases. The 2020 amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. Under that practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.

The practical expedient introduced in the 2020 amendments only applies to rent concessions for which any reduction in lease payments affects solely payments originally due on or before 30 June 2021. The 2021 amendments provide a one-year extension to the practical expedient for COVID-19 related rent concessions under IFRS 16 – i.e. permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30.06.2022.

The implementation of the change did not have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment

(Effective for annual periods beginning on or after 1.01.2022; to be applied retrospectively. Early application is permitted)

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary).

The implementation of the change did not have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

(Effective for annual periods beginning on or after 1.01.2022; to be applied retrospectively. Early application is permitted)

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

An entity must apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity will not restate comparative information. Instead, the entity will recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The implementation of the change did not have a significant impact on the Group's consolidated financial statements.

Annual improvements to IRS standards 2018-2022

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

Improvements to IFRS (2018-2020) include two amendments to the standards:

- The amendments to IFRS 9 Financial instruments clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender is on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- The amendments IFRS 16 Leases remove illustrative example 13 accompanying IFRS 16, which in practice creates confusion in accounting for leasehold improvements for both lessee and lessor. The purpose of the amendment is to remove the illustrative example that creates confusion.

The implementation of the change did not have a significant impact on the Group's consolidated financial statements.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31.12.2022 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial statements

(Effective for reporting periods beginning on or after 01.01.2023; retrospective application permitted. Early application is permitted)

The amendments clarify that the classification of liabilities as current or non-current is based solely on the company's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date does not have to be unconditional, but it must have substance. The classification is not affected by management's intentions or expectations regarding whether and when the company will exercise its right. The amendments also clarify situations that are considered to be settlement of a liability.

The management of the Group does not expect the amendments to have an impact on its consolidated financial statements when initially applied.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements

(Effective for annual periods beginning on or after 01.01.2023. Early application is permitted)

The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful by:

Requiring companies to disclose their material accounting polices rather than their significant accounting policies;

- Clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed.

- Clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The International Accounting Standards Board (IASB) has revised the IFRS implementation guidance No. 2, adding guidance and two additional examples on the application of the concept of materiality in the disclosure of accounting policies.

The amendments are consistent with the refined definition of material:

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

The management of the Group does not expect the amendments to have an impact on its consolidated financial statements when initially applied.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

(Effective for annual periods beginning on or after 01.01.2023; to be applied prospectively. Early application is permitted)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are not expected to have a material impact on the Group as these amendments provide guidance in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

Amendments to IAS 12 Income Taxes

(Effective for annual periods beginning on or after 01.01.2023. Early application is permitted)

The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both. The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The management of the Group does not expect the amendments to have an impact on its consolidated financial statements when initially applied.

Amendments to IAS 1 – classification of liabilities as current or non-current, deferral of effective date

(Effective for annual periods beginning on or after 01.01.2023. This pronouncement is not yet endorsed by the EU)

The amendments to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 01.01.2022. However in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement the classification changes resulting from the amended guidance.

The management of the Group does not expect the amendments to have a material impact on its consolidated financial statements when initially applied.

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

All foreign currency transactions during the reporting period are reflected in the financial statements in the accounting currency based on the exchange rate of the respective central bank on the day of the transaction. Fixed monetary assets and liabilities denominated in foreign currencies are revalued based on the official exchange rate of the respective central bank on the balance sheet date. Profits and losses from foreign currency transactions, including differences in exchange rates arising from the payment and revaluation of monetary assets and liabilities, are reflected in the income statement as income and expenses for the period.

Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under "Other operating income (-expense)" (Note 23). Gains and losses arising from cash, cash equivalents and borrowings are recognised net method in "Finance Costs" (Note 25).

Financial assets and liabilities

Recognition and initial measurement of financial assets

Trade receivables are recognised at the time of their occurrence. All other financial assets and liabilities are recognised when the Group becomes a contractual party to the instrument.

At initial recognition, the Group measures a financial asset or liability at its fair value plus or minus transaction costs directly attributable to the acquisition or issuance of the financial asset or liability. Trade receivables that do not contain a significant financing component are recognised at the transaction price on initial recognition.

Classification and subsequent measurement

The Group subsequently measures financial assets at either amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

Financial assets are not reclassified after initial recognition, except in cases where the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model. Financial assets are measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise to cash flows on specified dates that are solely payment of principal and interest on the outstanding principal amount.

The Group classifies cash and cash equivalents, trade and other receivables as financial assets measured at amortized cost.

Measurement of financial assets is done at fair value through other comprehensive income, if it meets both of the following conditions and it is not designated as a financial asset measured at fair value through profit or loss:

- The instruments are held in a business model whose objective is both to collect contractual cash flows and to sell financial assets.
- The contractual terms of the financial asset give rise to cash flows on specified dates that are solely principal and interest on the outstanding principal amount.

All financial assets that are not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

At initial recognition, the Group may also designate financial assets at fair value through profit or loss if they meet the criteria for measurement at either amortised cost or fair value through other comprehensive income, and doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains or losses on different bases.

Financial assets – subsequent measurement and profit or loss

Amortised cost	Assets in this group are measured at amortised cost using the effective interest method. Any impairment loss is deducted from the carrying amount of the asset. Interest income, gains or losses on foreign exchange, and impairment losses are recognized in the income statement. Any gain or loss arising from derecognition of the asset is recognized in the income statement.

Financial liabilities – classification, subsequent measurement and gains or losses

Financial liabilities are classified as measured either at amortized cost or at fair value through profit or loss. A financial liability is classified as at fair value through profit or loss if it is held for trading purposes, is a derivative, or is designated as such upon initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value, and net gains or losses, including any interest expense, are recognized in the profit or loss.

The classification of financial instruments as financial liabilities or equity instruments

The Group classifies the instrument or its components at initial recognition as either a financial liability, financial asset or equity instrument, based on the substance of the contractual arrangement and the definitions of a financial liability, financial asset and equity instrument.

Derecognition

Financial assets

The Group derecognises a financial asset when and only when the contractual rights to the cash flows from the financial asset expire or when the Group transfers the financial asset and the transfer qualifies for derecognition criteria. The Group transfers the right to receive contractual cash flows in a transaction in which it transfers all risks and rewards of ownership of the financial asset or in which the Group does not transfer the risks and rewards of ownership of the financial asset, but the Group no longer has control over the financial asset. Transactions in which the Group transfers assets presented in its financial statements, but retains all or substantially all of the risks and rewards of the transferred assets, do not result in derecognition of the transferred asset.

Financial liabilities

The Group derecognises a financial liability from its financial statements only when it has been extinguished. This means that if the obligation defined in the contract has been fulfilled, cancelled, or expired. The Group ceases to recognise a financial liability when the terms of the financial liability are amended such that the cash flows of the liability are substantially different from the original liability. In such cases, a new financial liability based on the modified terms is recognised at fair value.

The difference between a derecognised financial liability and a transferred financial liability (or part of a financial liability) with respect to the accounting carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised through profit or loss.

Offsetting

Financial assets and liabilities are offset and presented as a net amount in the financial statements only when the Group has a legal right to offset the amounts at that date and intends to settle the net amount on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Group applies the expected credit loss model for the impairment of financial assets carried at amortized cost.

The impairment loss is measured as an amount equal to the lifetime expected credit losses, except for financial assets for which the impairment loss is measured as an amount equal to the 12-month expected credit losses. These financial assets include:

- Other receivables.
- Cash and cash equivalents for which the credit risk has not increased significantly since initial recognition.

The Group applies the simplified approach under IFRS 9 for the expected credit loss recognition of all trade receivables, which allows for the formation of a provision for impairment for the expected credit loss amount over the period of validity.

The Group always recognises an allowance for impairment of trade receivables equal to the expected credit loss over their validity period. The estimation of the expected credit loss for these assets is based on a provision matrix that relies on the Group's historical credit loss experience, adjusted for specific debtor-related factors, general economic conditions, and, where necessary, the time value of money. The expected credit losses are probability-weighted estimates of credit losses. The credit loss is the difference between the contractual cash flows and the expected cash flows that the Group anticipates receiving, discounted at the financial asset's effective interest rate.

On each reporting date, the Group assesses whether the credit quality of the financial assets carried at amortised cost has deteriorated. The credit quality of a financial asset is considered to have deteriorated if one or more events have occurred that have a negative effect on the expected future cash flows of that financial asset. The indications that the credit quality of a financial asset has deteriorated include the following:

- Significant financial difficulties of the debtor.
- Breach of contract (failure to pay on time or default).
- Restructuring of a loan or advance on terms that the Group would not otherwise consider.
- Probability that the debtor will enter bankruptcy.

The carrying amount of the financial assets carried at amortised cost is reduced by the amount of any impairment loss.

Inventories

Inventory is initially recorded at its cost of acquisition, which includes purchase costs, direct and indirect production costs, and other expenses necessary to bring the inventory to its current location and condition.

Inventory purchase costs include customs duties, other non-refundable taxes, and transportation costs directly related to the acquisition of inventory, net of discounts and subsidies.

The cost of inventory is calculated using the FIFO method. Inventory is valued in the financial statements at the lower of cost or net realisable value. Net realisable value is the estimated selling price of inventory in the normal course of business, less costs associated with the sale of inventory.

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 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.

On each balance sheet date, the reasonableness of the used depreciation rates, depreciation method and final values assigned to assets is assessed. If the final value of an asset exceeds its net carrying amount, depreciation of the asset is discontinued.

On each balance sheet date, the Management Board assesses whether any circumstances indicate a possible decrease in the value of property, plant and equipment. If they exist, the Management Board determines the recoverable amount of the property, plant and equipment (i.e., the higher of fair value less costs to sell or the asset's value in use). If the recoverable amount is less than the net carrying amount of the asset, the object of the property, plant and equipment is written down to its recoverable amount. The impairment loss is recognised in the income statement under the heading "Other operating expenses." Any impairment loss recognised in prior periods is reversed if there has been a change in the estimates used to determine the recoverable amount.

Profits and losses on the sale of property, plant and equipment, which are calculated as the difference between the sales proceeds and the carrying value of the asset, are reflected in the income statement under the heading "Other operating income and 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 recognised in the statement of financial position at cost. Trademarks and licenses have a limited useful life and are recognised at their carrying amount. Amortisation is calculated using the straight-line method and the assets are amortised linearly over the following expected useful life:

- Licenses 10 years;
- Trademarks up to 50 years.

Amortisation related to trademarks and licenses is recognised in the income statement under the items "Marketing expenses" and "General administrative expenses," depending on the nature and intended use of the asset.

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).

Amortisation related to software is recognised in the income statement under the items "Marketing expenses" and "General administrative expenses," depending on the nature and intended use of the asset.

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

When entering into a contract, the Group assesses whether the contract is a lease or contains a lease component. A contract is a lease (or contains a lease component) if it conveys the right to control the use of identified property for a period of time in exchange for consideration. To assess whether a contract conveys the right to control and use the property, the Group applies the IFRS 16 definition of a lease.

Group as a lessee

When entering into or modifying a lease agreement that includes a lease component, the Group allocates the consideration in the contract to each lease component based on its standalone price.

The Group recognises the right-of-use asset and lease liability on the lease commencement date. The right-of-use asset is initially measured at cost, which consists of the lease liability at the beginning of the lease. The lease liability at the beginning of the lease is adjusted for any lease payments made, direct costs incurred, and restoration costs (related to dismantling and restoring the asset). The resulting amount is reduced by any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis from the lease commencement date until the end of the lease term, unless the lease agreement transfers ownership of the underlying asset to the Group at the end of the lease term, or if the residual value of the right-of-use asset indicates that the Group intends to exercise a purchase option. In such cases, the right-of-use asset is depreciated over the entire useful life of the underlying asset, which is determined on the same basis as the corresponding property, plant and equipment owned by the Group. In addition, the carrying amount of the right-of-use asset is reduced for any impairment losses. The right-of-use asset and lease liability are also adjusted for certain re-measurements.

The lease liability is initially measured at the present value of the lease payments that are not yet paid as of the commencement date of the lease, using the lessee's incremental borrowing rate or, if that rate cannot be readily determined, an incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate.

To determine the incremental borrowing rate, the Group uses various sources of financing inputs, which are adjusted to take into account the rental terms and the type of leased asset to arrive at the appropriate incremental borrowing rate for the leased asset.

The lease payments included in the lease liability consist of the following components:

- Fixed payments (including in-substance fixed payments).
- Penalties for early termination of the lease (if termination is reasonably certain).
- Purchase price (if a purchase option is reasonably certain to be exercised).
- Guaranteed residual value (the expected value of the amount to be paid).
- Lease payments dependent on an index or a rate.

The lease liability is measured at amortised cost. The lease liability is recalculated when there are changes in future lease payments due to an index or rate, when the estimated guaranteed residual value amount changes, or when the Group revies its estimate of whether it will exercise options to purchase, extend or terminate the lease. The lease liability is also remeasured when there are changes in fixed payments (including in-substance fixed payments).

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:

- 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.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession will meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022).
- There is no substantive change to other terms and conditions of the lease.

If the lease liability is re-measured due to the reasons listed above, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The impact of the lease liability change is recognized in the profit or loss when the carrying amount of the right-of-use asset is reduced to zero.

The Group has decided not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognizes the associated lease payments as an expense on a straight-line basis over the lease term.

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

The Group forms provisions for those obligations for which the timing or amount of the settlement is uncertain. The determination of the provision amount and timing is based on management's or relevant area experts' estimates.

A provision is recognised when the Group has incurred a legal or constructive obligation before the end of the reporting period, it is probable (more than 50%) that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The costs associated with the provision's settlement are estimated at the end of the reporting period, and the provision amount is reassessed at the end of each reporting period. If the provision is expected to be settled more than one year after the reporting period, it is discounted to its present value. The pre-tax discount rate is used for discounting, which reflects market assessments of the time value of money and the risks inherent in the obligation. The increase in the obligation over time is recognized as an interest expense.

Contingent liabilities are those obligations for which the probability of settlement is less than 50% or the assessment of their amount is not reliable. Contingent liabilities are disclosed in the notes to the consolidated annual report.

Equity

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.

Other reserves

Reserves that are not components of financial instruments or equity are formed according to the decision of the shareholders' meeting. These reserves can be used to cover losses from previous periods and can be used to increase share capital. No pay-outs to shareholders can be made from other reserves.

Segment reporting

Business segments are parts of a company that engage in business activities and from which the company can earn revenue and incur costs, for which separate financial information is available, and whose operating profit is regularly reviewed by the company's day-to-day decision-makers to decide on allocating resources to the segment and to assess the segment's performance. Segment reporting is presented in accordance with the internal reporting provided to the company's day-to-day decision-makers. The day-to-day decision-maker responsible for allocating resources and assessing the performance of business segments is defined as the Management Board of the Parent Company.

Revenue

Sales revenue is the revenue generated by the Group in the ordinary course of business. Sales revenue is recognized at the transaction price. The transaction price is the total consideration that the Group is entitled to receive in exchange for the promised goods or services to the customer, net of any amounts collected on behalf of third parties. The Group recognizes sales revenue when control of the goods or services is transferred to the customer.

The table below provides an overview of the nature and timing of the obligations to fulfil contracts with customers, including significant payment terms and the related revenue recognition principles.

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Retail	Customers acquire control over the goods at the moment when the goods are handed over to the customer by the Group and the customer has accepted the respective goods. Payment is made by customers immediately in-store. Customers can pay for the goods either in cash or by card. Customers have the right to return purchased goods within 14 days. In general, refunds are not offered in stores (it is possible to exchange the product for a different size or model, and it is also possible to receive a gift card for the value of the returned goods). If the product is defective, customers have the right to return the purchased goods within 6 months.	Revenue from the sale of goods is recognised at the point in time when the sales transaction is completed with the customer in the retail store. The right of customers to return goods is in accordance with local regulations in the relevant country. A provision for returns and the right to return goods is calculated and recognised based on historical data and best estimates. As the number of returned goods has been stable over the years, it is highly unlikely that the cumulative revenue recognized will need to be significantly reversed. The Group recognises provisions for products where it has an obligation under warranty terms to repair or replace faulty products. As of 31.12.2022 and 31.12.2021, the Group did not have a significant warranty provision.

2022 Consolidated Annual Report (in thousands of euros)

E-commerce	In the case of e-commerce sales, customers gain control over the goods when the goods are delivered to the customer's location. Payment is made by the customers immediately. Customers can pay for the goods by credit card or directly through their bank. Customers have the right to return purchased goods within 14 days from the day they received the package. Registered users of the e-store have the right to return the package within 30 days. If the product is defective, customers have the right to return the purchased goods within 2 months.	Revenue is recognized when control over goods or services is transferred to the customer, i.e., when the customer accepts the delivery of the goods. Revenue is recognized at the expected value of consideration received (taking into account possible returns). The Group uses the expected value method to estimate variable consideration, considering a large number of contracts with similar characteristics. The Group then applies the constraint of variable consideration estimates to determine the amount of variable consideration that can be recognized in the transaction price and recognized as revenue. Return obligations are recognized for the expected value of goods to be returned (i.e., the amount not included in the transaction price). The right to return goods (and the corresponding adjustment to sales price) is also recognized for the right to reclaim goods from customers.

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.

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.

2022 Consolidated Annual Report (in thousands of euros)

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 31.12.2017.

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 that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

Corporate income tax rates

	2022	**2021**
Estonia	20%	20%
Latvia	20%	20%
Lithuania	15%	15%

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 carryforwards. 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.

Subsequent events

When valuing assets and liabilities, significant factors related to transactions that occurred during the accounting period or in previous periods and that were identified during the preparation of the annual financial statements have been taken into account. Significant events occurring after the reporting date that have a material impact on the results of the next financial year but were not considered when valuing assets and liabilities are disclosed in the Notes to the annual financial statements.

NOTE 2 Critical accounting estimates and judgements in applying accounting policies

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Note 12: The length of lease agreements – determining the terms of lease agreements
- Note 16: Subordinated loans – classification as financial liabilities or equity instruments
- Lisa 24: Accounting for the sale of Ivo Nikkolo trademarks and subsequent use under a sole license agreement

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 4: Impairment risk associated with the Ivo Nikkolo trademark sales receivable
- Note 7: Inventory net realisable value assessment
- Note 11: Impairment testing of goodwill – key assumptions used
- Note 31: Going concern

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Group uses observable market data to the extent practicable.

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.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 4: Financial risks, fair value measurement subsection

NOTE 3 Correction of errors

Consolidated Annual Report

During the reporting period, the Group identified the following errors:

- There were arithmetic and factual errors in the IFRS 16 lease accounting, which resulted in an undervaluation of right-of-use assets and lease liabilities;

- A provision has been made for unpaid rent payments for the Ivo Nikkolo store at Suur-Karja 14, while the same amount was already included in the lease liability in the consolidated financial statements;

- The starting point of the cash flows from operating activities in the consolidated cash flow statement for the year 2021 was operating profit (-loss). IAS 7 explains that if a company uses the indirect method to reflect cash flows from operating activities, the starting point for cash flows is the net profit (-loss), not operating profit (-loss); and

- There was an incorrect representation in the consolidated cash flow statement for the year 2021 regarding the loan agreement entered into by the company’s largest shareholder, KJK Fund SICAV-SIF, on 31.12.2021, whereby a subordinated loan of 500 thousand euros was granted (the loan was received on 23.02.2022). The loan agreement was recorded in the operating cash flows as both an adjustment for non-cash items and an adjustment for changes in the working capital. However, the loan agreement did not affect net profit, so it should not be adjusted out of the operating cash flows. As the loan agreement is related to financing activities, it does not need to be recorded as an adjustment for changes in the working capital.

The corrections did not have a significant impact on the basic and diluted earnings per share for 2021.

Errors from prior periods will be corrected retrospectively, except to the extent that it is impracticable to determine the period-specific effects of the error or the cumulative effect. In this case, the management was unable to determine the period-specific effects of the errors in the IFRS 16 lease accounting due to one or more of the comparative period data presented, and therefore the Group will adjust the opening balances of assets, liabilities, and equity for the earliest period for which retrospective correction is practicable (31.12.2021).

2022 Consolidated Annual Report (in thousands of euros)

Consolidated statement of financial position

31 Dec 2021	As previously reported	IFRS 16 correction of errors	Correction of provision	As restated
Right-of-use assets	5,956	225	0	6,181
Other assets	5,539	0	0	5,539
Total assets	**11,495**	**225**	**0**	**11,720**
Lease liability	5,956	399	0	6,355
Trade and other payales	2,438	0	-109	2,329
Other liabilities	2,789	0	0	2,789
Total liabilities	**11,183**	**399**	**-109**	**11,473**
Retained earnings	-9,527	-174	109	-9,592
Others	9,839	0	0	9,839
Total equity	**312**	**-174**	**109**	**247**

Consolidated statement of profit or loss and other comprehensive income

2021	As previously reported	IFRS 16 correction of errors	Correction of provision	As restated
Gross profit	**6,120**	**0**	**0**	**6,120**
Distribution costs	-8,084	0	109	-7,975
Others	-936	0	0	-936
Net profit (-loss) for the reporting period	-2,900	0	**109**	**-2,791**
Total comprehensive income (-loss) for the period	**-2,900**	**0**	**109**	**-2,791**

Consolidated cash flow statement

2021	As previously reported	Adjustment of the starting point of operating cash flows	Correction of subordinated debt	As restated
Cash flows from operating activities				
Operating profit (-loss)	-2,505	2,505	0	0
Net profit (-loss)	0	-2,791	0	-2,791
Adjutsments	3,953	0	-500	3,453
Changes in working capital	16	-109	500	407
Paid interest and other interest expense	-34	34	0	0
Interest expense	0	330	0	330
Interest income	0	0	0	0
Income tax expense	0	65	0	65
Net cash generated from operating activities	**1,430**	**34**	**0**	**1,464**
Net cash used in investing activities	**-369**	**0**	**0**	**-369**
Net cahs generated from financing activities	**-1,874**	**-34**	**0**	**-1,908**
Total cash flows	**-813**	**0**	**0**	**-813**

2022 Consolidated Annual Report (in thousands of euros)

Separate financial statements of the Parent Company

During the reporting period, the Parent Company identified the following errors:

- IFRS 16 lease accounting contained arithmetic and factual errors. As a result, the right-of-use assets and lease liabilities were undervalued;
- The equity value reflected in the Parent company's statement of changes in equity does not match the equity reflected In the Parent Company's statement of financial position;
- The starting point of the cash flows from operating activities in the Parent company's cash flow statement for the year 2021 was operating profit (-loss). IAS 7 explains that if a company uses the indirect method to reflect cash flows from operating activities, the starting point for cash flows is the net profit (-loss), not operating profit (-loss); and
- There was an incorrect representation in the Parent company's cash flow statement for the year 2021 regarding the loan agreement entered into by the company's largest shareholder, KJK Fund SICAV-SIF, on 31.12.2021, whereby a subordinated loan of 500 thousand euros was granted (the loan was received on 23.02.2022). The loan agreement was recorded in the operating cash flows as both an adjustment for non-cash items and an adjustment for changes in the working capital. However, the loan agreement did not affect net profit, so it should not be adjusted out of the operating cash flows. As the loan agreement is related to financing activities, it does not need to be recorded as an adjustment for changes in the working capital.

The corrections of the errors did not affect the business, investing, and financing cash flows of the Parent company for the year ended 31.12.2021.

Errors from prior periods will be corrected retrospectively, except to the extent that it is impracticable to determine the period-specific effects of the error or the cumulative effect. In this case, the management was unable to determine the period-specific effects of the errors in the IFRS 16 lease accounting due to one or more of the comparative period data presented, and therefore the Group will adjust the opening balances of assets, liabilities, and equity for the earliest period for which retrospective correction is practicable (31.12.2021).

Parent company's statement of financial position

31 Dec 2021	As previously reported	IFRS 16 correction of errors	As restated
Right-of-use assets	284	196	480
Other assets	4,619	0	4,619
Total assets	**4,903**	**196**	**5,099**
Lease liability	443	36	479
Other liabilities	4,251	0	4,251
Total liabilities	**4,694**	**36**	**4,730**
Retained earnings	-9,630	160	-9,470
Others	9,839	0	9,839
Total equity	**209**	**160**	**369**

2022 Consolidated Annual Report (in thousands of euros)

Parent company's statement of changes in equity

31 Dec 2021	As previously reported	Adjustments	As restated
Retained earnings	-9,745	275[1]	-9,470
Others	9,839	0	9,839
Total equity	**94**	**275[1]**	**369**
Book value of holdings under control or significant influence	-863	0	-863
Value of holdings under control or significant influence, calculated under equity method	1,081	-340	741
Restated adjusted unconsolidated equity at 31 Dec 2021	**312**	**-65[2]**	**247**

[1]The correction of equity in the amount of 275 thousand euros is composed as follows:

- 160 thousand euros are due to the correction of initial balances in accordance with IFRS 16; and
- 115 thousand euros are due to the fact that the total equity in the parent company's statement of changes in equity was 115 thousand euros lower than in the parent company's statement of financial position.

[2]Refer to the adjustment made in the consolidated statement of financial position under the heading "Retained earnings".

Parent company's cash flow statement

2021	As previously reported	Adjustment of the starting point of operating cash flows	Correction of subordinated debt	As restated
Cash flows from operating activities				
Operating profit (-loss)	-2,902	2,902	0	0
Net profit (-loss)	0	-3,034	0	-3,034
Adjutsments	1,148	0	-500	648
Changes in working capital	-119	0	500	381
Paid interest and other interest expense	-34	34	0	0
Interest expense	0	132	0	132
Net cash generated from operating activities	**-1,907**	**34**	**0**	**-1,873**
Net cash used in investing activities	**-158**	**0**	**0**	**-158**
Net cahs generated from financing activities	**-1,401**	**-34**	**0**	**1,367**
Total cash flows	**-664**	**0**	**0**	**-664**

NOTE 4 Financial risks

In its daily operations, the Group is exposed to various risks, and managing these risks is an important and integral part of the Group's business. The Group's ability to identify, measure, and control various risks is a significant input to the overall profitability of the Group. Risk is defined by the Group's management as a potential negative deviation from expected financial results. The main risk factors are market risk (including currency risk, interest rate risk, and price risk), credit risk, liquidity risk, and operational risk. The Group uses various risk mitigation techniques, including adjusting retail prices, reducing the cost base, and, if necessary, restructuring intra-group transactions.

2022 Consolidated Annual Report (in thousands of euros)

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 2022 and 2021 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	2022	2021
USD (US dollar)	-6.12%	3.55%

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

Balance-sheet date rates	
USD (US dollar)	-5.83%

Cash and cash equivalents (Note 4), trade receivables (Note 5), and liabilities (Note 12) are in euros and therefore not exposed to currency risk. Trade payables (Note 13) partially include obligations in foreign currencies and are therefore exposed to currency risk.

The Board continuously monitors fluctuations in currency exchange rates and currency exchange rate forecasts and assesses whether the changes exceed the risk tolerance level set by the Group. If the Board identifies a risk of exceeding the risk tolerance level, it can use various measures to reduce the risk, such as:

- Timing of fixed payments in foreign currency (changing the timing of payments to take advantage of expected exchange rate changes).
- Holding reserves in foreign currency, where possible.

Interest rate risk

As the Group's cash and cash equivalents are held at a fixed interest rate and the Group has no other significant interest-bearing assets, changes in market interest rates do not affect the Group's income or business cash flow.

The interest rate risk of the Group's cash flow is mainly related to short- and long-term liabilities bearing floating interest rates. The interest rate risk is primarily related to the possible fluctuation of Euribor and changes in average interest rates of banks. The Group's risk margins have not significantly changed and correspond to market conditions.

As of 31.12.2022, the structure of the Group's interest-bearing liabilities was as follows:

2022 Consolidated Annual Report (in thousands of euros)

	31 Dec 2022	31 Dec 2021 Restated
Fixed rate debt (note 12)	5,109	6,354
Floating rate debt (note 13)	3,096	2,697
Total	**8,205**	**9,051**

If the interest rates on floating rate debt had changed by one or two percentage points during the reporting period, assuming that all other variable factors remained constant, the Group's profit or loss and equity would have increased (or decreased) as follows.

	2022	2021
Increase by two percentage points[1]	-62	-
Increase by one percentage point	-33	-9
Decrease by one percentage point	25	1

[1]During the comparable period, the impact of a two-percentage-point increase on the Group's financial result was not analysed because such an increase was not relevant during that period.

During the reporting year and the preceding financial year, the management assessed and acknowledged the extent of the interest rate risk, but no transactions have been entered into to hedge the interest rate risk with financial instruments, as the management believes that the extent of the interest rate risk is below the risk tolerance threshold.

Price risk

The Group's operations are highly dependent on raw materials (which are needed by the Group's suppliers for product manufacturing) and logistics (transport of inventory from suppliers and inter-market transport). The reporting year is characterized by high price growth, which is caused by a challenging economic and geopolitical situation.

The Group is not exposed to price risk related to financial instruments, as there are no investments in equity instruments.

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

The Group accepts primarily investment-grade rated banks and financial institutions as long-term cooperation partners in the Baltic states.

Cash and cash equivalents at bank classified by credit rating (Moody's)[1]

	31 Dec 2022	31 Dec 2021
Aa3	178	343
Baa2	23	239
Total (note 4)	**201**	**582**

[1]The credit rating is given for long-term deposits

Receivables

The maximum amount of credit risk arising from receivables from customers (Note 6), after deducting allowances, as of 31.12.2022 was 84 thousand euros (31.12.2021: EUR 41 thousand euros).

Sales to retail customers are usually made in cash or with well-known bank payment cards - therefore, there is no credit risk associated with retail customers, except for the risk arising from the banks and financial institutions that the Group has accepted as contracting parties.

Other receivables

As of 31.12.2022, the Group's other receivables amounted to 5,756 thousand euros. These receivables are related to the Group's strategic decision to sell some of the Ivo Nikkolo trademarks and continue to use the trademarks under a license agreement. The selling price of the trademarks was 8,000 thousand euros, and the money is received by the Group in four instalments, with the final payment to be made at the end of 2024.

As of the end of the reporting period, all contractually agreed cash flows had been received by the Group. The Group's assessment is that as of 31.12.2022, the receivables are not associated with significant credit risk because there are no indications of a potential credit deterioration or payment defaults by the buyer. The buyer is a special purpose vehicle (SPV) under the control of a foreign investment fund. The SPV was established for the purpose of this transaction, and therefore, it has no other assets to satisfy its obligations to the Group. The receipt of contractual cash flows in future periods is strongly linked to the financial condition of the foreign investment fund and its ability to raise additional capital if needed to meet its contractual obligations to AS Baltika. The credit risk associated with the receivables is mitigated by the fact that pledges have been established in favour of the Group's parent company for the trademarks, which ensures the fulfilment of the obligations arising from the sales contract by the buyer. The possible realisation value of the collateral exceeds the carrying amount of the receivable, therefore the expected credit loss is either zero or very small. Please refer to Note 24 and 31 for additional information related to the transaction.

Liquidity risk

Liquidity risk is the possible risk that the Group has limited or insufficient financial resources to fulfil its obligations arising from the Group's activities. The management constantly monitors cash flow forecasts to assess the availability and sufficiency of the Group's financial resources to fulfil its obligations and finance the Group's strategic objectives.

As of the end of the year, the Group's working capital is negative. To mitigate liquidity risk, the Group uses various sources of financing, including bank loans, overdraft, issuing additional shares, and regularly monitors the collection of receivables and the terms of purchase and sale agreements. The unused amount of the overdraft as of 31.12.2022 was 260 thousand euros (31.12.2021: 1,015 thousand euros). According to the management's assessment, the negative working capital will not cause difficulties for the Group in fulfilling its obligations in 2023 (see Note 31).

2022 Consolidated Annual Report (in thousands of euros)

Financial liabilities by maturity as at 31 Dec 2022

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	4-12 months	1-5 years	Total
Loans (note 13)[2]	4,096	120	3,096	1,000	4,216
Lease liabilities (note 12)	5,109	473	1,287	3,556	5,316
Trade payables (note 14)	1,012	989	23	147	1,159
Other financial liabilities (note 14)	251	181	70	0	251
Total	**10,468**	**1,763**	**4,476**	**4,703**	**10,941**

Financial liabilities by maturity as at 31 Dec 2021 (Restated)

		Undiscounted cash flows[1]			
	Carrying amount	1-3 months	4-12 months	1-5 years	Total
Loans (note 13)[2]	2,781	93	275	2,436	2,804
Lease liabilities (note 12)	6,354	721	1,809	4,277	6,806
Trade payables (note 14)	1,032	1,010	11	11	1,032
Other financial liabilities (note 14)	148	148	0	0	148
Total	**10,315**	**1,971**	**2,095**	**6,724**	**10,789**

[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 activities are influenced by the cyclical nature of the economy in target markets and changes in competitive levels, as well as specific risks associated with particular 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.

As increasing flexibility plays a crucial role in improving the Group's competitiveness, continuous efforts are made to reduce the cycle times of significant business processes and minimise the impact of potential deviations. Openness to change and quick response enable the improvement of inventory levels and structure, as well as the conformity of collections with consumer expectations.

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.

2022 Consolidated Annual Report (in thousands of euros)

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.

Capital management

The main objective of the Group's capital management is to ensure its sustainability, to provide returns to shareholders and benefits to other stakeholders, while maintaining an optimal capital structure to reduce the cost of capital. In order to maintain or improve the capital structure, the Group can regulate dividends paid to shareholders, return paid-in share capital, issue new shares, or sell assets to reduce liabilities.

The loan agreement with the bank sets certain restrictions and disclosure requirements regarding dividend payments, changes in share capital, and raising additional capital.

The net debt to equity ratio is subject to restrictions under the Commercial Code, which requires that equity must be at least 50% of share capital.

	31 Dec 2022	31 Dec 2021 Restated
Share capital (note 16)	5,408	5,408
Equity	3,708	247
The proportion of equity to share capital	**68.56%**	**4.57%**

During the reporting period, the Group's equity increased by 3,461 thousand euros compared to the end of the previous year, due to the Group's strategic decision to sell some of the Ivo Nikkolo trademarks and continue to use the trademarks only under a license agreement. As a result of the transaction, the Group made a one-time profit of 7,447 thousand euros, bringing the Group's equity in line with the requirement of the Commercial Code that equity must be at least 50% of the share capital. See more details about the transaction in Note 23 and 24.

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 2022	31 Dec 2021 Restated
Total interest carrying borrowings (Note 12, 13)	8,275	9,172
Cash and cash equivalents (Note 5)	-222	-614
Net debt	8,053	8,529
Total equity	3,708	247
Net gearing ratio	**217%**	**3453%**

To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. It is crucial for the Group's management to successfully complete the company's restructuring and achieve normal business operations, enabling the Group to earn regular net income and gradually strengthen its equity position.

2022 Consolidated Annual Report (in thousands of euros)

Measurement of fair values

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
31 Dec 2022	**Financial assets at amortised cost**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value							
Cash and cash equivalents	222	-	**222**				
Trade receivables	84	-	**84**				
Other receivables	5,756	-	**5,756**	-	5,642	-	**5,642**
Total	**6,062**	**-**	**6,062**	**-**	**5,642**	**-**	**5,948**
Financial liabilities not measured at fair value							
Trade payables	-	1,012	**1,012**				
Overdraft	-	2,740	**2,740**	-	2,640	-	**2,640**
Borrowings	-	356	**356**	-	349	-	**349**
Loans received from shareholder	-	1,000	**1,000**	-	-	1,000	**1,000**
Total	**-**	**5,108**	**5,108**	**-**	**2,989**	**1,000**	**5,001**

	Carrying amount			Fair value			
31 Dec 2021	**Financial assets at amortised cost**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value							
Cash and cash equivalents	614	-	**614**				
Trade receivables	41	-	**41**				
Other receivables	500	-	**500**				
Total	**6 062**	**-**	**6 062**				
Financial liabilities not measured at fair value							
Trade payables	-	1 032	**1 032**				
Overdraft	-	1 985	**1 985**	-	1 960	-	**1 960**
Borrowings	-	712	**712**	-	708	-	**708**
Loans received from shareholder	-	-	**-**	-	-	-	**-**
Total	**-**	**3 373**	**3 373**	**-**	**2 668**	**-**	**2 668**

Measuring fair value

Most of the Group's short- and long-term debt obligations are based on floating interest rates, which change according to market interest rates. According to the management's assessment, the Group's risk margins have not significantly changed compared to the time of borrowing, and the interest rates on the Group's debt obligations correspond to market conditions. To determine fair value, discounted cash flow analysis has been used, discounting contractual future cash flows at prevailing market interest rates available to the Group using similar financial instruments.

2022 Consolidated Annual Report (in thousands of euros)

The interest-free loan provided by the major shareholder of AS Baltika (see Notes 13 and 28) has been given for the purpose of financial support. Management has assessed that this loan is in line with market conditions, as market participants would provide similar loans under comparable terms for the same purpose. Therefore, in the management's assessment, the book value of this loan is close approximation of its fair value.

See more information about the carrying values of borrowings and about interest rates in Note 13.

NOTE 5 Cash and cash equivalents

	31 Dec 2022	31 Dec 2021
Cash at hand	21	32
Cash at bank and overnight deposits	201	582
Total	**222**	**614**

All cash and cash equivalents are denominated in euros. For additional information, see Note 3.

NOTE 6 Trade and other receivables

Current trade and other receivables	31 Dec 2022	31 Dec 2021
Trade receivables, net	84	41
Other receivables [1]	3,000	0
Prepaid expenses [2]	185	100
Tax prepayments and tax reclaims, thereof	16	47
Value added tax	16	47
Other current receivables[3]	0	508
Total	**3,285**	**696**

Non-current trade and other receivables	31 Dec 2022	31 Dec 2021
Other receivables [1]	2,756	0
Total	**2,756**	**0**

[1]Other receivables (current and non-current) include a receivable against Niul OÜ resulting from the sale of trademarks (Notes 4, 24).

[2]Prepaid expenses for future periods include prepayments for rent and insurance for stores, prepayments for IT services, and other similar costs.

[3]Other current receivables include accrued interest, PayPal payments (e-shop), card payments and payment gateway receivables.

As of 31.12.2022, the Group's receivables from customers and other receivables amounted to 6,041 thousand euros, an increase of 5,345 thousand euros compared to the end of the previous year. The increase is related to the Group's strategic decision to sell some of the Ivo Nikkolo trademarks and continue to use the trademarks under a license agreement. The sale price of the trademarks was 8,000 thousand euros, and the money is paid to the Group in four different instalments, with the last payment to be made to the Group at the end of 2024. As of the end of the reporting year, all contractual cash flows had been received by the Group. See more details in Notes 24 and 31.

2022 Consolidated Annual Report (in thousands of euros)

NOTE 7 Inventories

	31 Dec 2022	31 Dec 2021
Fabrics and accessories	20	2
Finished goods and goods purchased for resale	1,850	2,456
Prepayments to suppliers	104	33
Total	**1,960**	**2,491**
Expense for inventory write-down for the period 1.01-31.12.	-15	-100

The cost of inventory write-down is reflected under the line item "Finished goods and purchased goods for sale". In addition to the above, the Group recognized in 2022 a cost of 29 thousand euros (2021: 143 thousand euros) arising from inventory shortages and other write-offs. Inventory write-downs and write-offs were reflected in the income statement under the line item "Cost of goods sold".

Assessment of net realisable value of inventory

In assessing inventory, the management relies on the best information available to them, taking into account historical experience, general background information, and assumptions and conditions regarding possible future periods. In determining the extent of inventory write-downs, the net realizable value and the possible net realizable cost of finished goods are taken into consideration. In the case of raw materials, their potential use in the production of finished goods and their value in terms of revenue are considered.

NOTE 8 Deferred income tax

Deferred income tax as at 31 Dec 2022

	Total
Deferred income tax asset	
On tax loss carry forwards	91
Total	**91**
Deferred income tax asset, thereof	**91**
Non-current portion	91
Deferred income tax income (-expense) (Note 26)	**11**

Deferred income tax as at 31 Dec 2021

	Total
Deferred income tax asset	
On tax loss carry forwards	80
Total	**80**
Deferred income tax asset, thereof	**80**
Non-current portion	80
Deferred income tax income (-expense) (Note 26)	**-65**

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.

2022 Consolidated Annual Report (in thousands of euros)

The Group recognised deferred income tax assets in the statement of financial position as at 31.12.2022 and 2021 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 9 Other non-current assets

	31 Dec 2022	31 Dec 2021
Deposits	107	172
Total	**107**	**172**

Deposits represent security deposits related to lease agreements of subsidiary companies engaged in retail trade within the Group.

NOTE 10 Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other fixtures	Unfinished buildings and projects	Total
31 Dec 2020					
Acquisition cost	**2,384**	**937**	**3,703**	**0**	**7,024**
Accumulated depreciation	-1,794	-843	-3,169	0	-5,806
Carrying amount	**590**	**94**	**534**	**0**	**1,218**
Additions	28	47	118	35	228
Disposals and write-offs	-15	-13	-62	0	-90
Depreciation	-278	-31	-192	0	-501
31 Dec 2021					
Acquisition cost	**2,412**	**984**	**3,821**	**35**	**7,252**
Accumulated depreciation	-2,087	-887	-3,423	0	-6,397
Carrying amount	**325**	**97**	**398**	**35**	**855**
Additions	454	49	432	6	941
Disposals and write-offs	-57	-47	-37	0	-141
Reclassification between PPE groups	0	14	21	-35	0
Depreciation	-176	-40	-170	0	-386
31 Dec 2022					
Acquisition cost	**2,075**	**860**	**2,763**	**6**	**5,704**
Accumulated depreciation	-1,529	-787	-2,119	0	-4,435
Carrying amount	**546**	**73**	**644**	**6**	**1,269**

The Group has continued its planned closure of unprofitable stores. In 2022, the Group closed 12 stores. The most significant write-offs of PPE in the reporting period are related to the fixtures and buildings and structures written off in connection with store closures.

2022 Consolidated Annual Report (in thousands of euros)

The most significant investments are related to the opening of new Ivo Nikkolo concept stores. During the reporting period, the Group opened five new stores with a new store concept in Estonia, Latvia, and Lithuania, as well as its first Ivo Nikkolo outlet store in the Arsenal Centre in Tallinn.

NOTE 11 Intangible assets

	Licenses, software and other	Trademarks	Pre-payments	Goodwill	Total
31 Dec 2020					
Acquisition cost	**974**	**643**	**73**	**154**	**1,844**
Accumulated depreciation	-786	-461	0	0	-1,247
Carrying amount	**188**	**182**	**73**	**154**	**597**
Additions	141	0	0	0	**141**
Disposals	0	0	-73	0	**-73**
Reclassification between groups	0	53	0	0	**53**
Amortisation	-58	-29	0	0	**-87**
31 Dec 2021					
Acquisition cost	**1,115**	**643**	**0**	**154**	**1,912**
Accumulated depreciation	-844	-437	0	0	-1,281
Carrying amount	**271**	**206**	**0**	**154**	**631**
Additions	323	0	0	0	**323**
Disposals	-41	-203	0	0	**-244**
Write-offs	-12	0	0	0	**-12**
Amortisation	-109	-3	0	0	**-112**
31 Dec 2022					
Acquisition cost	**1,385**	**440**	**0**	**154**	**1,979**
Accumulated depreciation	-953	-440	0	0	-1,393
Carrying amount	**432**	**0**	**0**	**154**	**586**

During the reporting period, the Group sold some of the Ivo Nikkolo trademarks. The carrying amount of the trademarks sold at the time of the sale was 244 thousand euros (of which 41 thousand euros were licenses, software, and other assets, and 203 thousand euros were trademarks). The sales price was 8,000 thousand euros, resulting in a gain on sale of 7,447 thousand euros, which was reported as "Other operating income (expenses)" in the consolidated income statement. After the trademark sale agreement, the Group and the buyer of the trademarks entered into an exclusive license agreement, under which the Group will continue to use the trademarks. The Group recognized the exclusive license agreement as an intangible asset with a cost of 252 thousand euros. More information about the transaction is disclosed in Note 24.

Information about intangible assets pledged as collateral for loans is disclosed in Note 13.

Impairment test for goodwill

The Management Board has conducted an impairment test to test the value of the goodwill arising from the acquisition of SIA Baltika Latvija, a subsidiary of the Group. In determining the recoverable amount of the cash-generating unit, future cash flows based on planned retail sales volumes have been considered. Future cash flows have been discounted at a discount rate applicable to a similar industry in the specific market. If the recoverable amount of the cash-generating unit is lower than its carrying amount, the goodwill is impaired to the recoverable amount.

2022 Consolidated Annual Report (in thousands of euros)

As of 31.12.2022, the recoverable amount of the cash-generating unit of SIA Baltika Latvija was determined based on the calculation of its value in use. A detailed forecast of pre-tax cash flows for the next five years was prepared to determine the value in use. The projected cash flows beyond the fifth year were based on an assumed growth rate.

Key assumptions used for value-in-use calculations

	Baltika Latvija	
Balance at 31 Dec	**2022**	**2021**
Carrying amount of goodwill	154	154
Five-year monthly average square meter sales	187 EUR/m2	169 EUR/m2
Growth[1]	2%	2%
Gross margin[2]	61%	57%
Discount rate[3]	17.35%	11.2%
Difference between recoverable and carrying amount (thousands)	2,505	698

[1]The growth rate of cash flows used in the forecasts for determining the terminal value.

[2]The Management Board determined the gross margin based on historical margin and the expected margin for the following years.

[3]The pre-tax discount rate (WACC) used in the cash flow forecasts.

The expected growth rates used in the forecasts of future cash flows were derived from the experience-based growth rate in the respective industry and the Management Board's expectation of the growth rate for the following years in the relevant region. The pre-tax weighted average cost of capital (WACC) was used as the discount rate, which takes into account the specific risks of the particular market and industry.

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. However, the management has identified that a possible change in one of the key assumptions may result in a situation where the carrying amount exceeds the recoverable value. The table below shows by how much the aforementioned assumption would need to change individually for the recoverable value to be equal to the carrying amount.

	Change required for carrying amount to equal recoverable amount
Five-year monthly average square meter sales	-16%

NOTE 12 Leases

This note provides information for leases where the Group is a lessee

Amounts recognised in the financial statements

The consolidated financial statements of the Group include the following assets related to lease agreements:

2022 Consolidated Annual Report (in thousands of euros)

	Right-of-use assets		
	Offices	Commercial premises	Total
31 Dec 2020	**714**	**8,485**	**9,199**
Additions	0	1,040	1,040
Terminated/changes of lease contracts	0	-1,150	-1,150
Depreciation	-189	-2,944	-3,133
Carrying amount 31 Dec 2021	**525**	**5,431**	**5,956**
Correction of errors (Note 3)	-45	269	224
Restated carrying amount 31 Dec 2021	**480**	**5,700**	**6,181**
Additions	0	931	**931**
Terminated/changes of lease contracts	0	-366	**-366**
Depreciation	-101	-2,049	**-2,149**
Carrying amount 31 Dec 2022	**379**	**4,216**	**4,597**

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

	31 Dec 2022	31 Dec 2021 Restated
Lease liabilities		
Current lease liabilities	1,813	2,009
Non-current lease liabilities	3,296	4,345
Total lease liabilities	**5,109**	**6,354**

Detailed information on minimum lease payments by maturity is disclosed in note 4.

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:

	2022	2021
Interest expense (included in finance cost, Note 25)	289	274
Expense relating to short-term leases (included in operating expenses, Notes 20-21)	0	875
Depreciation charge for right-of-use assets (included in operating expenses, Notes 20-21)	2,150	3,140
Expense relating to leases of low-value assets (included in operating expenses, Notes 20-21)	28	55
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses, Notes 20-21)	2	4
Total	**2,469**	**2,598**

The total cash outflow for leases in 2022 was 2,099 thousand euros (IFRS 16) (2021: 5,174).

The length of lease agreements – determining the terms of lease agreements

The calculation of the right-of-use asset and financial liability depends on the lease term. The Group determines the lease term as the non-cancellable period of the lease, including any periods covered by options to extend the lease if it is reasonably certain that those options will be exercised, or periods covered by options to terminate the lease if it is reasonably certain that those options will not be exercised.

After the commencement date of the lease, the Group reassesses the lease term if there is a significant event or a change in circumstances that is within the control of the Group and affects its ability to use (or not use) the extension option.

2022 Consolidated Annual Report (in thousands of euros)

Management has assessed that each leased asset will be used for the lease term or for a shorter period if there is a contractual option and an agreed plan to terminate the lease earlier.

Several of the Group's lease agreements with shopping centres include variable lease payments (turnover rent). If the Group does not meet the minimum turnover rent threshold specified in the agreement, then the Group pays minimum rent on the lease. Turnover rent is recognized directly in the income statement.

NOTE 13 Borrowings

	31 Dec 2022	31 Dec 2021
Current borrowings		
Current portion of bank loans	356	356
Overdraft (Notes 30, 31)	2,740	0
Current portion of finance lease liabilities	0	8
Total	**3,096**	**364**
Non-current borrowings		
Non-current bank loans	0	356
Overdraft	0	1,985
Loans received from shareholders (Note 28)	1,000	0
Other non-current liabilities	70	84
Total	**1,070**	**2,425**
Total borrowings	**4,166**	**2,789**

The Group's borrowings are denominated in euros. The management's assessment is that the Group's borrowings' carrying value does not significantly differ from their fair value (see Note 4). During the reporting period, the Group made bank loan payments of 356 thousand euros (2021: 293 thousand euros). The interest expense on loans and other interest-bearing liabilities during the reporting period amounted to 368 thousand euros (2021: 330 thousand euros), including interest expense on lease liabilities recognised in accordance with IFRS 16. As of the end of the year, the Group had used the bank overdraft in the amount of 2,740 thousand euros (out of a limit of 3,000 euros), and the unused portion of the overdraft at the end of 2022 was 260 thousand euros (31.12.2021: 1,015 thousand euros).

Interest carrying loans of the Group as at 31 Dec 2022

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month EURIBOR)	2,697	EURIBOR +2,00%
Total	**2,697**	

Interest carrying loans of the Group as at 31 Dec 2021

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month EURIBOR)	2,697	EURIBOR +2,0%
Total	**2,697**	

The Group's collaterals for bank borrowings

As at 31.12.2022 and 31.12.2021 the bank borrowings were secured with following asset types:

- Commercial pledge to movables.
- Trademarks.

2022 Consolidated Annual Report (in thousands of euros)

- Shares of the subsidiaries.
- Cash equivalents on the bank accounts.

As at 31.12.2022 carrying amount of assets pledged was 3,883 thousand euros, including inventories in amount of 1,960 thousand euros, property, plant and equipment in amount of 1,269 thousand euros, intangible assets in amount of 432 thousand euros and cash on the bank accounts 222 thousand euros.

As at 31.12.2021 carrying amount of assets pledged was 4,437 thousand euros, including inventories in amount of 2,491 thousand euros, property, plant and equipment in amount of 855 thousand euros, intangible assets in amount of 477 thousand euros and cash on the bank accounts 614 thousand euros.

For additional information, see also Note 4.

Changes in liabilities arising from financing activities

	31 Dec 2021	Correction of errors in opening balances	Cash flows	Additions to lease agreements	Other	31 Dec 2022
Current portion of long-term bank loans	**356**	0	-356	0	356	**356**
Bank overdrafts	**1,985**	0	754	0	0	**2,740**
Other current loans	**8**	0	-8	0	0	**0**
Non-current bank loans	**356**	0	0	0	-356	**0**
Lease liabilities	**5,956**	399[1]	-2,099	931	-78	**5,109**
Loans received	**0**	0	1,500	0	-500[2]	**1,000**
Other non-current loans	**84**	0	-90	0	70	**70**
Total liabilities from financing activities	**8,745**	**399**	**-299**	**-931**	**-508**	**-9,275**

	31 Dec 2021	Correction of errors in opening balances	Cash flows	Additions to lease agreements	Other	31 Dec 2022
Current portion of long-term bank loans	**227**	0	-293	0	422	**356**
Bank overdrafts	**0**	0	1,985	0	0	**1,985**
Other current loans	**25**	0	-8	0	-9	**8**
Non-current bank loans	**778**	0	0	0	-422	**356**
Lease liabilities	**9,620**	0	-3,558	1,040	-1 146	**5,956**
Loans received	**96**	0	-34	0	22	**84**
Total liabilities from financing activities	**10,746**	**0**	**-1,908**	**1,040**	**-1, 133**	**8,745**

[1]For information related to error corrections, please refer to Note 3

[2]The other movement in the amount of 500 thousand euros is related to a loan agreement signed between the Parent Company and its major shareholder, KJK Fund SICAV-SIF, signed on 31.12.2021, whereby KJK Fund SICAV-SIF provided a subordinated loan of 500 thousand euros. The loan was received on 23.02.2022. Until receipt, the amount was reflected as other short-term receivables. After receipt, the other short-term receivable was reclassified as an equity instrument (see Note 16).

The "Other amounts" category includes reductions of obligations related to the restructuring process, the impact of reclassification between long- and short-term portions of bank loans and capital lease obligations due to the passage of time, capitalization and amortization effects of loan arrangement fees, and accrued but unpaid interest, as well as the expiration of lease agreements.

2022 Consolidated Annual Report (in thousands of euros)

NOTE 14 Trade and other payables

	31 Dec 2022	31 Dec 2021
Current liabilities		
Trade payables	970	1,032
Tax liabilities, thereof	385	759
Personal income tax	48	68
Social security taxes and unemployment insurance premium	238	329
Value added tax	89	361
Other taxes	10	1
Payables to employees[1]	305	329
Customer prepayments	61	57
Other accrued expenses	6	140
Other current payables	14	31
Total	**1,741**	**2,224**
Non-current liabilities		
Other non-current payables[2]	147	0
Total	**147**	**0**
Total trade and other payables	**1,888**	**2,224**

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

[2]Other current and non-current liabilities include an obligation arising from the sole license agreement of Ivo Nikkolo trademarks at amortised cost of 164 thousand euros (current part being 17 thousand euros and long-term part being 147 thousand euros).

Trade payables and other accrued expenses in denominated currency

	31 Dec 2022	31 Dec 2021
EUR (euro)	744	1,045
USD (US dollar)	232	3
Total	**976**	**1,048**

For additional information, see also Note 4.

NOTE 15 Provisions

	31 Dec 2022	31 Dec 2021
Other provision	0	105
Total	**0**	**105**

In 2021, the other provision included costs related to store closures.

2022 Consolidated Annual Report (in thousands of euros)

NOTE 16 Equity

Share capital

	31 Dec 2022	31 Dec 2021
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 31.12.2022 and 31.12.2021 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 Dec 2021	**54,079,485**
Number of shares 31 Dec 2022	**54,079,485**

As at 31.12.2022 and 31.12.2021, under the Articles of Association, the company's minimum share capital is 2,000 thousand euros and the maximum share capital is 8,000 thousand euros. As at 31.12.2022 and 31.12.2021 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 2022	31 Dec 2021
Other reserves	4,431	4,431

The other reserves in the amount of 4,431 thousand euros as of 31.12.2022 and 31.12.2021 represent an interest-free loan without a fixed repayment date from KJK Fund SICAV-SIF.

In 2021, the balance of other reserves increased by 500 thousand euros. The increase is related to a loan agreement concluded on 31.12.2021, between the Parent Company's major shareholder, KJK Fund SICAV-SIF, which provided a subordinated loan of 500 thousand euros. The loan was received on 23.02.2022. Until the receipt of the loan, this amount was reflected as other short-term receivables. In the cash flow statement, the loan was reflected as other non-cash adjustments.

Classification of subordinated loans as financial liabilities or equity instruments

Subordinated loans in the amount of 4,431 thousand euros (31.12.2021: 4,431 thousand euros) have been classified as equity instruments because the subordinated loans do not contain a contractual obligation to transfer cash or other financial assets to another economic unit.

2022 Consolidated Annual Report (in thousands of euros)

Shareholders as at 31 Dec 2022

	Number of shares	Holding
1. ING Luxembourg S.A.	48,526,500	89.73%
2. AS Genteel	1,297,641	2.40%
3. Clearstream Banking AG	1,069,624	1.98%
4. AS SEB Bankas	349,730	0.65%
5. Kaima Capital Eesti OÜ	231,578	0.43%
6. SWEDBANK AS CLIENTS	152,831	0.28%
7. Tarmo Kõiv	114,002	0.21%
8. PAAVO KAIS	108,000	0.20%
9. Other shareholders	2,229,579	4.12%
Total	**54,079,485**	**100%**

Shareholders as at 31 Dec 2021

	Number of shares	Holding
1. ING Luxembourg S.A.	48,526,500	89.73%
2. AS Genteel	1,297,641	2.40%
3. Clearstream Banking AG	1,069,624	1.98%
4. AS SEB BANKAS	303,945	0.56%
5. Kaima Capital Eesti OÜ	231,578	0.43%
6. SWEDBANK AS, LATVIJA	152,922	0.28%
7. Tarmo Kõiv	143,000	0.26%
8. PAAVO KAIS	105,000	0.19%
9. Other shareholders	2,249,275	4.17%
Total	**54,079,485**	**100%**

The shares of the Parent company are listed on the Nasdaq Tallinn.

NOTE 17 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. 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.

2022 Consolidated Annual Report (in thousands of euros)

- All other segments – consists of sale of goods to wholesale, franchise and consignation clients, materials and sewing services. None of these segments meet the reportable segments quantitative thresholds set out by IFRS 8 and are therefore aggregated into the All other segments category.

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

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

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

The segment result includes revenues and costs directly associated with the segment and a significant portion of the revenues/costs that can be attributed to the specific segment through external or internal transactions. The segment's assets and liabilities include assets and liabilities related directly to the segment or that can be attributed to the specific segment.

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
2022 and as at 31 Dec 2022				
Revenue (from external customers)	8,635	943	35	9,613
Segment profit[2]	-1,202	86	1	-1,115
Incl. depreciation and amortisation	-359	-24	0	-384
Inventories of segments	1,112	0	0	1,112
2021 and as at 31 Dec 2021				
Revenue (from external customers)	9,785	1,866	120	11,770
Segment profit[2]	-435	129	31	-275
Incl. depreciation and amortisation	-412	-23	0	-435
Inventories of segments	1,915	0	0	1,915

2022 Consolidated Annual Report (in thousands of euros)

[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

	2022	2021
Total segment profit	-1,115	-275
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-1,058	-1,689
Administrative and general expenses	-1,448	-1,467
Other operating income (expenses), net	7,408	926
Operating profit (loss)	**3,787**	**-2,505**

[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 2022	31 Dec 2021
Total inventories of segments	1,112	1,915
Inventories in Parent company	944	576
Inventories on statement of financial position	**2,056**	**2,491**

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

	31 Dec 2022	31 Dec 2021 Restated
Estonia	3,364	4,300
Latvia	1,965	1,432
Lithuania	1,121	1,935
Total	**6,451**	**7,667**

NOTE 18 Revenue

	2022	2021
Sale of goods in retail channel	8,635	9,785
Sale of goods in e-commerce channel	943	166
Other sales	35	120
Total	**9,613**	**11,770**

Sales by geographical (client location) areas

	2022	2021
Estonia	4,519	6,976
Latvia	2,419	2,665
Lithuania	2,633	2,029
Other countries	42	100
Total	**9,613**	**11,770**

2022 Consolidated Annual Report (in thousands of euros)

NOTE 19 Cost of goods sold

	2022	2021
Materials and supplies	4,775	5,815
Changes in allowance of inventories (Note 7)	-46	-165
Total	**4,729**	**5,650**

NOTE 20 Distribution costs

	2022	2021 Restated
Payroll costs[1]	2,686	3,059
Depreciation and amortisation (Notes 10-12)	2,492	3,493
Operating lease expense (Note 12) [2]	0	-373
Other rent expenses (Note 12)	22	0
Advertising expenses	471	578
Municipal services and security expenses	594	190
Fuel, heating and electricity costs	268	195
Information technology expenses	169	206
Fees for card payments	49	54
Consultation and management fees	56	61
Communication expenses	28	34
Travel expenses	30	9
Other sales expenses[3]	408	470
Total	**7,274**	**7,975**

[1]Payroll costs in 2021 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 to the 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 21 Administrative and general expenses

	2022	2021
Payroll costs[1]	667	940
Depreciation and amortisation (Notes 10-12)	158	108
Management, juridical-, auditor´s and other consulting fees	145	89
Information technology expenses	152	192
Fuel, heating and electricity expenses	25	9
Bank fees	41	54
Lease expense (Note 12)	0	4
Other lease expenses	8	0
Other administrative expenses[2]	66	71
Total	**1,262**	**1,467**

2022 Consolidated Annual Report (in thousands of euros)

[1]Payroll costs in 2021 include reduction of expense as governments´ subsidies have been received either directly by group companies or indirectly by paying less due to employees receiving income directly from government.

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

NOTE 22 Wages and salaries

	2022	2021
Payroll costs	2,681	3,124
Social security costs	673	875
Total	**3,354**	**3,999**

The average number of employees		
Person working on the basis of an employment contract	148	218
Person providing services on the basis of a contract of obligations, except for a sole proprietor	7	7
Member of the management or supervisory body of a legal person	8	8
Total	**163**	**233**

NOTE 23 Other operating income (-expense)

	2022	2021
Profit (-loss) from the sale or write-off of PPE	-122	-115
Profit (-loss) from the sale or write of intangible assets[1]	7,447	0
Other operating income[2]	169	1,213
Foreign exchange gain (-loss)	-45	-12
Other operating expenses	-42	-160
Total	**7,408**	**926**

[1]During the reporting period, the Group sold some of the Ivo Nikkolo trademarks. The transaction sales price was 8,000 thousand euros, and the result of the transaction was a net profit of 7,447 thousand euros. For more information, please refer to Notes 11 and 24.

[2]Other operating income is related to gain from reorganisation of AS Baltika. Refer to Note 30.

NOTE 24 Sale and use of Ivo Nikkolo trademarks under exclusive licence

The parent company of the Group and Niul OÜ (Buyer) signed a trademark transfer agreement on the 08.08.2022, on the basis of which the Buyer acquired some of the Ivo Nikkolo trademarks. Despite the transfer of the trademarks, the Group retains the exclusive right to use the trademarks on the basis of the exclusive trademark license agreement concluded between the Group's parent company and the Buyer on the 08.08. 2022.

The purpose of the transaction is to finance the Group's core activities, projects and investments.

Treatment of the transaction either as a sale-leaseback or as two separate transactions

The Group management concluded that the transaction is not a sale-leaseback, because the scope of the IFRS 16 "Leases" standard excludes contracts resulting from license agreements falling within the scope of IAS 38 "Intangible assets" (such as license agreements for the use of trademarks). The management of the Group is of the opinion that the requirements of IAS 38 to apply IFRS 16 sale-leaseback accounting principles to intangible assets applies only to certain intangible assets that are not excluded from the scope of application of IFRS 16. Therefore, the Group accounts for the sale and use of the trademarks based on an exclusive license agreement as two separate transactions and not as a sale-leaseback transaction.

Transfer of control of the Ivo Nikkolo trademarks

Based on the terms of the contract, the management of the Group assessed that the Buyer has gained control over the trademarks at the moment of signing the Sale Agreement, because from that moment the Buyer can control the use of the trademarks and receive basically all the remaining benefits from the trademarks. Therefore, the management of the Group came to the conclusion that according to the standard IFRS 15 “Revenue from Contracts with Customers”, the Group recognises a profit or loss from the transaction, which is the difference between the net proceeds received from the transaction and the carrying amount of the trademarks (Notes 11 and 23).

Sale of trademarks

The sale price of the trademarks is 8,000 thousand euros. Pursuant to the sales agreement, the Buyer undertakes to pay the purchase price as follows:

- 500 thousand euros of the purchase price will be paid in cash latest by 09.08.2022.
- 1,500 thousand euros of the purchase price will be paid in cash latest by 16.08.2022.
- 3,000 thousand euros of the purchase price will be paid in cash latest by 31.12.2023.
- 3,000 thousand euros of the purchase price will be paid in cash latest by 31.12.2024.

In addition, the Group’s parent company and the Buyer have signed on the 08.08.2022 notarised pledge agreements with respect to the trademarks and in favour of Group’s parent company to secure the performance of the obligations by the Buyer under the sales agreement.

The gain or loss on arising on derecognition is the difference between the net proceeds received and the carrying amount of the trademarks. The transaction price of the sales contract has been adjusted by significant financing component (the market interest rate used for adjustment was 2.81%), because the purchase price is paid on the basis of a long-term payment schedule. The Group reported a one-time profit from the transaction in the amount of 7,436 thousand euros (Notes 11, 23).

As of the end of the reporting period, all contractually agreed cash flows had been received by the Group. The Group's assessment is that as of 31.12.2022, the receivables are not associated with significant credit risk because there are no indications of a potential credit deterioration or payment defaults by the buyer. The buyer is a special purpose vehicle (SPV) under the control of a foreign investment fund. The SPV was established for the purpose of this transaction, and therefore, it has no other assets to satisfy its obligations to the Group. The receipt of contractual cash flows in future periods is strongly linked to the financial condition of the foreign investment fund and its ability to raise additional capital if needed to meet its contractual obligations to AS Baltika. The credit risk associated with the receivables is mitigated by the fact that pledges have been established in favour of the Group's parent company for the trademarks, which ensures the fulfilment of the obligations arising from the sales contract by the buyer. Refer to Notes 4 and 31

License agreement

Under the license agreement, the Buyer granted the Group a world-wide and unlimited right to use and exploit the trademarks and the rights arising from the trademarks, i.e. an exclusive license of the trademarks for the whole validity of the license agreement.

The license agreement is valid for 10 years as of the signing of the agreement (the Initial Term). After the expiration of the Initial Term, the license agreement will automatically renew for one additional year (the Renewal Term) and this occurs after the expiration of each Renewal Term unless a party gives notice of nonrenewal to the other party not less than three months prior to the expiration of the Initial Term or any Renewal Term. The license agreement will terminate in any case if the trademark protection for all trademarks has expired. Otherwise, the license agreement may be terminated only by written agreement between the parties.

2022 Consolidated Annual Report (in thousands of euros)

The Group pays the Buyer a license fee based on the license agreement, which consists of several components, as follows:

- A lump sum royalty of 27 thousand euros which was paid to the Buyer for the year 2022 on 10.08.2022.
- As of 22.08.2022 until 07.08.2023 the Group will pay to the Buyer a monthly royalty of 2.1 thousand euros on the 22th day of every month.
- As of 08.08.2023 the Group will pay to the Buyer a monthly royalty of 3.7 thousand euros on the 10th day of every month.
- In addition to the above royalties, there is an annual royalty which is 2.5% of the annual turnover of the Group from the sale of goods bearing “Ivo Nikkolo” trademark based on the audited annual reports of the Group but capped at EUR 300,000 per year. The Group undertakes to pay the annual royalty for the preceding calendar year within 30 days as of the receipt of the auditor’s approval to the annual report with respect to the preceding calendar year. The first annual royalty payment is due in mid-2023 for the year 2022 and is calculated based on months the exclusive licence is valid in 2022.

When concluding the license agreement, the Group recognised an intangible asset from the agreement at its acquisition cost. Since the fee paid for the use of trademarks is partially variable (2.5% of the Group’s annual turnover), the Group measured the acquisition cost of the intangible asset based on the agreed minimum payments. From the license agreement, the Group recognised 253 thousand euros (Note 11) in the acquisition cost of the intangible asset and 172 thousand euros (Note 14) as a liability based on the agreed minimum payments for future periods. The market interest rate used for the present value of the assets and liabilities was 3.77%.

NOTE 25 Financial expenses and income

	2022	**2021**
Interest expense	-368	-330
Interest income	64	0
Total	**-304**	**-330**

In 2022, interest expense includes accounted interest expense from lease liabilities (IFRS 16) in the amount of 289 thousand euros (In 2021: 274 thousand euros). For additional information, see Note 12 Leases.

NOTE 26 Income tax

	2022	**2021**
Deferred income tax income (-expense) (Note 8)	11	-61
Tax expense	0	-4
Total income tax income (-expense)	**11**	**-65**

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.

2022 Consolidated Annual Report (in thousands of euros)

Income tax for the year ended at 31 Dec 2022

	Total
Loss before tax	3,483
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	11
Income tax expense	**0**
Deferred income tax income (-expense) (Note 8)	**11**

Income tax for the year ended at 31 Dec 2021

	Kokku
Loss before tax	-2,835
Nominal tax rate	0-20%
Changes in recognised balance sheet deferred tax assets	-61
Income tax expense	**-4**
Deferred income tax income (-expense) (Note 8)	**-65**

NOTE 27 Earning per share

Basic earnings per share

		2022	2021 Restated
Weighted average number of shares (thousand)	pcs	54,079	54,079
Net profit (-loss) (thousands)	EUR	3,462	-2,791
Basic earnings per share	**EUR**	**0.06**	**-0.05**

Diluted earnings per share

Diluted earnings per share for the periods ended 31.12.2022 and 31.12.2021 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 31.12.2022 and 31.12.2021, the Group had no dilutive potential ordinary shares.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Nasdaq Tallinn Stock Exchange in 2022 was 0.20 euros (2021: 0.33 euros).

NOTE 28 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:

2022 Consolidated Annual Report (in thousands of euros)

- owners, that have significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 16);
- members of the Management Board and the Supervisory Board[1];
- immediate family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Board 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	**2022**	**2021**
Services from entities under the control of the members of the Management Board and Supervisory Board	0	9
Total	**0**	**0**

In 2022, AS Baltika has not made transactions with related parties. In the year 2021, AS Baltika bought mostly management services from the related parties.

Balances with related parties

	2022	**2021**
Borrowings and interests (Note 13)	1,000	0
Subordinated loans (recognised under equity in other reserves)	4,431	4,431
Total	**5,431**	**4,431**

All transactions in 2022 as well as in 2021 and balances with related parties as at 31.12.2022 and 31.12.2021 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, Supervisory Board and Audit Committee

	2022	**2021**
Remuneration of Management Board members (without social tax)	199	440
Remuneration of Supervisory Board members (without social tax)	10	10
Remuneration of Audit Committee members (without social tax)	3	3
Total	**212**	**453**

As at 31.12.2022 and 31.12.2021, the Group had two members of the Management Board and four members of the Supervisory Board.

NOTE 29 Subsidiaries

Subsidiary	**Location**	**Activity**	**Holding as at 31 Dec 2022**	**Holding as at 31 Dec 2021**
OÜ Baltika Retail[1]	Estonia	In liquidation	100%	100%
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvija[2]	Latvia	Retail	100%	100%
UAB Baltika Lietuva[2]	Lithuania	Retail	100%	100%

[1]The company has been deregistered from the Commercial Register on 19.01.2023.
[2]Interest through a subsidiary.

NOTE 30 Reorganisation

AS Baltika applied for the commencement of reorganisation proceedings to Harju County Court on 25.03.2020 and on 26.03.2020 the court decided to initiate reorganisation proceedings. On 30.04.2020 AS Baltika presented reorganization plan to creditors for their approval. On 20.05.2020 AS Baltika`s reorganization plan was accepted by the creditors. Court approved AS Baltika's reorganization plan on 19.06.2020. According to the reorganization plan major restructuring measures are finishing the successfully started strategic turnaround with its goal of cutting fixed costs 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 31.12.2023.

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.

In 2022, payments were made to creditors in the amount of 11 thousand euros based on the reorganization plan (2021: 15 thousand euros).

NOTE 31 Going concern

This annual report has been prepared on the going concern basis, assuming that the Group will be able to realise its assets and fulfil its obligations in the course of its normal business operations. The Management Board draws attention to the following:

- The Group's current assets are negative – as of 31.12.2022, current liabilities exceeded current assets by 1,183 thousand euros, therefore additional financing is necessary to continue operations;
- The Group's operating cash flows are negative.

A significant portion of the Group's short-term liabilities is comprised of the utilized overdraft as of 31.12.2022, in the amount of 2,740 thousand euros (out of a limit of 3,000 thousand euros). The deadline for the expiration of the overdraft is 31.12.2023. Given the fact that the Group's short-term liabilities exceed its current assets, the Management Board is aware that the Group's ability to repay the overdraft is associated with significant uncertainty. As a result, in 2022, the Management Board initiated negotiations regarding the revision of the overdraft limit and the extension of the repayment deadline. The negotiations are planned to conclude in the summer of 2023.

A significant portion of the Group's current assets is a short-term receivable of 3,000 thousand euros resulting from the sale of Ivo Nikkolo trademarks. The deadline for the receivable is linked to the expiration of the overdraft, which is 31.12.2023. Although there are no indications known to the Management Board of the buyer of the trademarks being at risk of credit deterioration or payment defaults, the Management Board acknowledges that every receivable carries a credit risk. The buyer of the trademarks is a special purpose vehicle (SPV) under the control of a foreign investment fund established for the specific transaction. The specific SPV has no other assets to satisfy its obligations to the Group. Therefore, the receipt of contractual cash flows in future periods is strongly linked to the financial condition of the foreign investment fund and its ability to raise additional capital, if necessary, to fulfil its contractual obligations to AS Baltika. Although the credit risk associated with the receivables is mitigated by the fact that pledge agreements have been established in favour of the Parent Company regarding the trademarks, which guarantee the buyer's performance of its obligations, additional time and costs related to the realisation of the security must be taken into account.

The Management Board notes that as of the preparation of this year's financial report, the Group is behind its budgeted sales plan. In order to proactively respond to the risks associated with falling behind the sales plan, the Group has taken steps to enter the business-to-business (B2B) market since February 2023. Entering the B2B market would help reduce the initial sales plan shortfall in 2023 through new revenue streams and help stabilize the Group's liquidity position.

At the same time, through increased efficiency, the Group has achieved significant cost savings. During the first three months of 2023, the Group has reduced its budgeted expenses for the year by a total of 239 thousand euros (of which 109 thousand euros are related to the reduction of marketing expenses and 130 thousand euros are related to the reduction of general administrative expenses). Although the cost savings achieved so far are not sufficient to fully alleviate liquidity problems, it is an important step towards improving the Group's working capital and financial position. The Group continues to search for opportunities to increase efficiency in order to further reduce costs.

The Management Board acknowledges that there is significant uncertainty regarding the extent and duration of the economic downturn. It is difficult to assess its precise impact on customer demand.

The Management Board took into account financial forecasts, including negative forecasts for the next 12 months from the date of approval of this year’s financial statements. The forecasts support the preparation of the financial statements on a going concern basis, based on the following assumptions:

- Gradual economic recovery along with increasing sales and business cash flows in the longer term.
- Ability to further cut costs through improved operations and processes.
- Extension of the maturity date of the overdraft and restructuring of the credit limit.
- Timely receipt of contractual cash flows from the sale of trademarks.

The Management Board believes that based on the above circumstances, the Group will be able to achieve a financial position that ensures the continuity of its operations. Therefore, the report has been prepared on a going concern basis. However, if the Group is unable to meet its financing needs and repay all its obligations on time, there is significant doubt about the Group's ability to continue as a going concern, and as a result, the Group may not be able to realize its assets and meet its obligations in the course of its normal business operations.

In order to finance the working capital, a comfort letter was signed on 31.03.2023 between AS Baltika and the KJK Fund promising immediate financial support to Baltika AS in case of its financial difficulties provided that the Company’s Management Board has submitted a reasoned application for that purpose and accordingly, if necessary, invest additional funds essential to ensure that AS Baltika will continue as a going concern for 12 months from the date of approval of the financial statements.

NOTE 32 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.

2022 Consolidated Annual Report (in thousands of euros)

Statement of financial position of the parent company

	31 Dec 2022	31 Dec 2021 Restated
ASSETS		
Current assets		
Cash and cash equivalents	11	0
Trade and other receivables	3,916	2,098
Inventories	848	676
Total current assets	**4,775**	**2,774**
Non-current assets		
Trade and other receivables	2,756	0
Investments in subsidiaries	686	863
Other non-current receivables	26	408
Property, plant and equipment	86	97
Right-of-use assets	379	480
Intangible assets	432	477
Total non-current assets	**4,366**	**2,325**
TOTAL ASSETS	**9,141**	**5,099**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	3,096	356
Lease liabilities	94	87
Trade and other payables	1,435	1,423
Total current liabilities	**4,625**	**1,866**
Non-current liabilities		
Borrowings	1,000	2,420
Lease liabilities	298	392
Other liabilities	35	52
Total non-current liabilities	**1,333**	**2,864**
TOTAL LIABILITIES	**5,959**	**4,730**
EQUITY		
Share capital at par value	5,408	5,408
Reserves	4,431	4,431
Retained earnings	-6,656	-9,470
TOTAL EQUITY	**3,183**	**369**
TOTAL LIABILITIES AND EQUITY	**9,141**	**5,099**

2022 Consolidated Annual Report (in thousands of euros)

Statement of comprehensive income of the parent company

	2022	2021
Revenue	2,887	6,113
Cost of goods sold	-4,060	-5,402
Gross profit (-loss)	**-1,173**	**711**
Distribution costs	-1,591	-2,228
Administrative and general expenses	-1,262	-1,496
Other operating income	7,698	139
Other operating expenses	-318	-28
Operating profit (-loss)	**3,354**	**-2,902**
Other financial expenses	-479	0
Interest income	64	0
Interest expense	-124	-132
Profit (-loss) before taxation	**2,815**	**-3,034**
Net profit (-loss) for the reporting period	**2,815**	**-3,034**

2022 Consolidated Annual Report (in thousands of euros)

Cash flow statement of the parent company

	2022	2021 Restated
Cash flow from operating activities		
Net profit (-loss)	2,815	-3 034
Adjustments:		
Depreciation, amortisation and impairment of PPE and intangibles; gain (loss) from disposal of PPE	242	648
Gain from sale of intangible assets	-7,447	0
Loss (profit) from sale and write-off of fixed assets	12	0
Changes in working capital:		
Changes in trade and other receivables	1,064	-423
Changes in trade and other payables	-541	406
Changes in inventories	-172	398
Financial income	603	132
Financial expense	-64	0
Net cash generated from (used in) operating activities	**-3,490**	**-1,873**
Cash flows from investing activities		
Acquisition of non-current assets	-190	-158
Proceeds from disposal of intangible assets	2,000	0
Net cash used in investing activities	**1,810**	**-158**
Cash flows from financing activities		
Proceeds from borrowings	1,500	0
Repayments of borrowings	-356	-293
Change in overdraft balance	754	1,985
Repayments of finance lease, principle	-110	-232
Repayments of lease liabilities, interest	-22	-59
Interests paid	-76	-34
Net cash generated (used in) from financing activities	**1,609**	**1,367**
Total cash flows	**11**	**-664**
Cash and cash equivalents at the beginning of the period	**0**	**664**
Cash and cash equivalents at the end of the period	**11**	**0**
Net change in cash and cash equivalents	**11**	**-664**

2022 Consolidated Annual Report (in thousands of euros)

Statement of changes in equity of the parent company

	Share capital	Reserves	Retained earnings	Total
Balance at 31 Dec 2020	**5,408**	**3,931**	**-6,711**	**2,628**
Total comprehensive income (-loss) for the period	0	0	-3,034	-3,034
Other reserves	0	500	0	500
Balance at 31 Dec 2021	**5,408**	**4,431**	**-9,745**	**94**
Book value of holdings under control or significant influence				863
Value of holdings under control or significant influence, calculated under equity method				1,081
Adjusted unconsolidated equity at 31 Dec 2021				**312**
Correction of errors				
Correction of errors	0	0	275	275
Corrected balance at 31 Dec 2021	**5,408**	**4,431**	**-9,470**	**369**
Restated book value of holdings under control or significant influence				-863
Restated value of holdings under control or significant influence, calculated under equity method				741
Restated adjusted unconsolidated equity at 31 Dec 2021				**247**
Total comprehensive income (-loss) for the period	0	0	2,815	2,815
Balance at 31 Dec 2022	**5,408**	**4,431**	**-6,655**	**3,184**
Book value of holdings under control or significant influence				-686
Value of holdings under control or significant influence, calculated under equity method				1,210
Adjusted unconsolidated equity at 31 Dec 2022				**3,708**

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.

NOTE 33 Subsequent events

On 05.01.2023 Baltman OÜ, a subsidiary of AS Baltika, and Kalaport OÜ entered into a compromise, which ended the legal dispute regarding the lease agreement for the Ivo Nikkolo store located at Suur-Karja 14 in Tallinn's old town, which began in early 2021, by agreement between the parties. With the compromise, both Kalaport OÜ and Baltman OÜ mutually waived all claims and Baltman OÜ will continue to fulfil the lease agreement, taking into account the differences agreed in the compromise, from 01.02.2023. The parties have agreed that the terms of the compromise agreement are confidential. Harju County Court approved on 10.01.2023 the compromise agreement.

DECLARATION OF THE MANAGEMENT BOARD

The Management Board confirms that the Management Report, Social Responsibility Report, Corporate Governance Report and Remuneration Report presented on pages 3 to 34 provide a true and fair view of the business development, results and financial position of the parent company and the consolidated entities as a whole.

The board confirms that the consolidated financial statements presented on pages 35 to 91 give a true and fair view of the assets, liabilities, financial position, and results of the issuer and the consolidated entities as a whole, in accordance with the International Financial Reporting Standards as adopted by the European Union to the best of the Management Board's knowledge. The report also includes a description of the main risks and uncertainties.

Brigitta Kippak
Chairman of the Management Board, CEO
27 April 2023

Margus Olesk
Member of the Management Board, CFO
27 April 2023

Independent auditors' report

To the Shareholders of AS Baltika

(Translation of the Estonian original)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of AS Baltika and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss and other comprehensive income, consolidated statement changes in equity and consolidated cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 31 to the consolidated financial statements, which reflects that the Group's current liabilities as at 31 December 2022 exceed current assets as at the same date by 1,183 thousand euros. At the same time, the Group's operating cash flows are negative. As stated in Note 31, these circumstances, together with other circumstances outlined in Note 31, indicate that there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

<table>
<tr><td colspan="2">Recognition of the transfer of the Ivo Nikkolo trademarks and of the retained right to use the trademarks under a licence agreement</td></tr>
<tr><td colspan="2">See Note 24 to the consolidated financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The parent of the Group signed a trademark transfer agreement on 8 August 2022 on the basis of which some of the Ivo Nikkolo trademarks were sold for 8 million euros. In addition, an exclusive trademark licence agreement was signed with the buyer under which the Group retains the exclusive right to use the trademarks.

As at 31 December 2022, the Group’s receivable from the buyer of the trademarks amounted to 5,756 thousand euros, the item consisting of a current portion of 3,000 thousand euros and a non-current portion of 2,756 thousand euros. According to the assessment of the Group’s management, the receivables are not exposed to significant credit risk because there is no indication of the buyer’s potential settlement difficulties.

In view of the facts that it was a material transaction of the reporting period and that the recognition of the transfer of a trademark and of the user rights under a licence agreement are not clearly regulated by IFRS, the recognition of the transaction involves complex estimates and judgements by management, which affect the application of the Group’s accounting policies and the recognised amounts of assets, liabilities, income and expenses.

Therefore, auditing the transfer of the trademarks required a considerable portion of our time and resources. Accordingly, we determined the recognition of the transfer of the trademarks and of the retained right to use the trademarks under a licence agreement as a key audit matter.</td><td>In this area, we conducted, among others, the following audit procedures:

• We evaluated whether the accounting policies applied in the recognition of the sales transaction and the exclusive licence agreement comply with IFRS as adopted by the EU.
• We involved in our audit IFRS experts to assess whether the accounting policies applied were appropriate.
• We evaluated the potential credit risk of the receivable from the transfer of the trademarks and the appropriateness of the inputs used by management to assess the need for a credit loss allowance for the receivable.
• We evaluated the appropriateness of associated disclosures in the consolidated financial statements.</td></tr>
<tr><td colspan="2">Going concern</td></tr>
<tr><td colspan="2">See Note 31 to the consolidated financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
</table>

We identified significant circumstances which may, either individually or in aggregate, cast significant doubt on the Group's ability to continue as a going concern. As at 31 December 2022, the Group's current liabilities exceeded its current assets by 1,183 thousand euros. The Group's net profit for 2022 was 3,462 thousand euros, but excluding the one-off sale of the trademarks, the Group would have incurred a net loss of 3,985 thousand euros. Moreover, the Group's net operating cash flow for the period was negative. Accordingly, the Group needs additional financing to continue its operations. Due to those circumstances, we determined the Group's ability to continue as a going concern as a key audit matter.	In this area, we conducted, among others, the following audit procedures: • We evaluated whether the goals set by management are realistic and achievable, taking into account our understanding of the Group's business and the general economic environment. • We evaluated whether the budgets and forecasts prepared by management are reasonable. • We reviewed events and circumstances which may cast significant doubt on the Group's ability to continue as a going concern. • We evaluated the appropriateness of the disclosures related to going concern matters in the consolidated financial statements. • We evaluated whether the information disclosed in the consolidated financial statements in respect of events after the reporting period was appropriate and adequate.

Estimation of the recoverable amounts of right-of-use assets

See Note 12 to the consolidated financial statements.

The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2022, the carrying amount of the Group's right-of-use assets was 4,596 thousand euros, the item accounting for roughly 30% of the Group's total assets. The Group's total income in 2022 decreased compared with a year earlier and without the gain on the transfer of the trademarks the Group would have ended the year with a loss. If the Group cannot increase revenue and generate positive operating cash flow in subsequent periods, there is the risk that the carrying amounts of the Group's right-of-use assets may decrease below their recoverable amounts. We identified the value of the right-of-use assets as a key audit matter due to the amount of the right-of-use assets and the uncertainties inherent in related estimates made by management.	In this area, we conducted, among others, the following audit procedures: • We analysed the operating results and budgets for 2022 by each store to identify the stores that generate a loss. • We reviewed significant assumptions used by management in forecasting expected future cash flows, such as revenue and expense projections, and compared them to the approved business plans and budgets. • We analysed the sensitivity of management's estimates and forecasts to changes in the key inputs (such as revenue growth). • We evaluated the appropriateness of associated disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report, the remuneration report, but does not include the consolidated financial statements and our auditors' 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 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. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements. With respect to the remuneration report, our responsibility also includes considering whether the remuneration report has been prepared in accordance with the requirements of Article 135^3 of the Securities Market Act.

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 and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements. In our opinion, the remuneration report has been prepared in accordance with the requirements of Article 135^3 of the Securities Market Act.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management 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 management 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, management 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 management 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.

Auditors' 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 auditors' 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 International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgement 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 management.
- Conclude on the appropriateness of management'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, then we are required to draw attention in our auditors' 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 auditors' 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 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 auditors' 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

Report on Compliance with the Requirements for iXBRL tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standard (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 48510000I3W254YEMG75-2022-12-31-et.zip prepared by AS Baltika.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

– the selection and application of appropriate iXBRL tags using judgement where necessary;

– ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and

– the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained.

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

– obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;

– reconciling the tagged data with the audited consolidated financial statements of the Group dated 31 December 2022;

– evaluating the completeness of the tagging of the consolidated financial statements;

– evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;

– evaluating the use of anchoring in relation to the extension elements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements included in the annual report of AS Baltika identified as 48510000I3W254YEMG75-2022-12-31-et.zip for the year ended 31 December 2022 are tagged, in all material respects, in compliance with the ESEF RTS.

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 23 August 2022 to audit the consolidated financial statements of AS Baltika for the years ended 31 December 2022 and 31 December 2023. Our total uninterrupted period of engagement is 1 year, covering the period ending 31 December 2022.

We confirm that:

– our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;

– we have not provided to the Group the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 27 April 2023

/signed/	/signed/
Indrek Alliksaar	**Mari-Leen Sandre**
Certified Public Accountant, Licence No 446	Certified Public Accountant, Licence No 701

KPMG Baltics OÜ
Licence no 17

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Tallinn 10117

Estonia

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2022 Consolidated Annual Report (in thousands of euros)

PROPOSAL FOR DISTRIBUTION OF PROFIT

The Management Board of AS Baltika proposes to distribute the profit of the financial year ended on 31.12.2022 in the amount of 3,462 thousand euros as follows:

The portion of net profit belonging to the shareholders of AS Baltika	**3,493**
Increase in mandatory reserve capital (1/20 of the net profit)	173
Allocation of the current year's profit or loss to retained earnings of previous periods	3,289
Mandatory reserve capital before the increase	0
Mandatory reserve capital after the increase	**175**
Accumulated retained earnings (-losses) of previous periods before profit distribution	-6,130
Consolidated accumulated retained earnings (-losses) after profit distribution	**-2,841**

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Brigitta Kippak
Chairman of the Management Board, CEO
27 April 2023

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Margus Olesk
Member of the Management Board, CFO
27 April 2023

APPROVAL BY THE SUPERVISORY BOARD

The Supervisory Board of AS Baltika approved the consolidated annual report for the financial year ended 31.12.2022, which consists of a management report, a social responsibility report, a report on corporate governance, a remuneration report, and an annual financial report, accompanied by an independent auditor's report.

Kristjan Kotkas
Chairman of the Supervisory Board
27 April 2023

Reet Saks
Member of the Supervisory Board
27 April 2023

Lauri Kustaa Äimä
Member of the Supervisory Board
27 April 2023

Jaakko Sakari Mikael Salmelin
Member of the Supervisory Board
27 April 2023

AS BALTIKA SUPERVISORY BOARD

KRISTJAN KOTKAS
Member of the Supervisory Board since 08.10.2019, Chairman of the Supervisory Board since 21.06.2022
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 31.12.2022: 0

JAAKKO SAKARI MIKAEL SALMELIN
Member of the Supervisory Board since 21.06.2010, Chairman of the Supervisory Board during the period 23.05.2012 to 20.06.2022.
Partner, KJK Capital Oy
Master of Science in Finance, Helsinki School of Economics
Number of Baltika shares held as at 31.12.2022: 0

REET SAKS
Member of the Supervisory Board since 25.03.1997
Legal Advisor at Farmi Piimatööstus
Degree in Law, University of Tartu
Number of Baltika shares held as at 31.12.2022: 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
Number of Baltika shares held as at 31.12.2022: 231,578 shares (on Kaima Capital Eesti OÜ account)

AS BALTIKA MANAGEMENT BOARD

BRIGITTA KIPPAK

Member of the Management Board since 01.06.2021, CEO since 21.06.2022, in the Group since 1997

Economics Degree (University of Tartu)

Baltika shares held on 31.12.2022: 1 575

MARGUS OLESK
Member of the Board since 01.11.2022, CFO since 01.06.2022, in the Group since 2022
Taxation and Customs Degree (Estonian Academy of Security Sciences)
Baltika shares held on 31.12.2022: 0

FLAVIO PERINI
Member of the Board, CEO during the period 01.05.2020 to 20.06.2022
Law Degree (Università degli Studi di Parma)
Baltika shares held on 20.06.2022: 0

2022 Consolidated Annual Report (in thousands of euros)

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

Code	Definition	2022	2021
46421	Wholesale of clothing and footwear	1,944	4,210
47911	Retail sale via mail order houses or via Internet	943	1,866
46151	Brokerage of furniture, other products	0	0
68201	Other rental revenue	0	23
46191	Wholesale of other products	0	10
14131	Other sewing services	0	3
Total		**2,887**	**6,113**