

Company AS BALTIKA
 Type Company Release
 Category Management interim statement or quaterly financial report
 Disclosure time 18 Apr 2019 16:47:04 +0300

Attachments:

- Baltika-10001785051-en.pdf (<http://oam.fi.ee/en/download?id=3809>)
- Baltika-10001785053-et.pdf (<http://oam.fi.ee/en/download?id=3810>)

Currency

Title BALTIKA'S UNAUDITED FINANCIAL RESULTS, FIRST QUARTER OF 2019

Baltika Group ended the first quarter with a net loss of 1,442 thousand euros. The loss for the same period last year was 982 thousand euros. The result for the first quarter of 2019 includes a negative impact of 117 thousand euros on the new accounting standard IFRS 16.

As of 1 January 2019, IFRS 16, "Leases", amended the recognition of lease contracts so that the rent payments for the remaining term of the lease period are recognized in the statement of financial position at their present value as both assets and liabilities, and period rent expenses are not recognized in income statement, instead of that the depreciation and interest expense are recognized in the income statement. The impact of the mandatory new accounting standard IFRS 16 on the income statement is shown in the table below.

	1Q 2019
-----	-----
Decrease in rent expenses	1,605
Increase in depreciation	-1,502
Increase in operating profit	103
Calculated interest expense on lease liabilities	-220
-----	-----
Decrease in the net profit	-117

In addition, IFRS 16 has a significant impact on the company's various balance sheet assets and liabilities. As at 31.03.19, fixed assets (i.e all lease payments at their present value, up to the end of the contract term) are increasing by 16,577 thousand euros and at the same time short-term lease liabilities increasing by 6,815 thousand euros and long-term lease liabilities



by 9,879 thousand euros.

The Group's sales revenue decreased by 10% in the first quarter compared to the same period last year and amounted to 9,270 thousand euros. The largest sales channel, retail, sales decreased by 2% and totalled 7,975 thousand euros. Revenue decreased by 5% in both the Estonian and Latvian markets, while sales revenue in Lithuania increased by 6%. For several consecutive quarters, there has been a downward trend in the sales of formal clothing and the men's segment, while demand for dresses and outerwear has increased.

The sales revenue of business customers (wholesale, franchise and consignment customers) in the first quarter was 708 thousand euros, decreasing by 58% compared with last year. The decrease in sales revenue of nearly 1 million euros is related to the termination of contracts of franchise partners of Belarus and Ukraine and the decrease in Russian franchise volumes. Another important reason for the decrease in sales revenue was the change in cooperation agreement with Peek & Cloppenburg, a chain of German and Central European department stores, in autumn 2018, and closure of Spanish franchise stores.

The sales revenue of the first quarter of the Baltika Group's online store Andmorefashion.com increased by 16% compared to the same period last year and amounted to 544 thousand euros. Monton accounted for 37% of sales in the first quarter, followed by Mosaic with 26%. The most distant countries to which Baltika's brand orders were shipped in the first quarter were Japan, Australia, USA and Canada.

The quarter's gross profit was 4,434 thousand euros, lower by 449 thousand euros compared to the same period last year (1Q 2018: 4,883 thousand euros). The decrease in gross profit is primarily due to the decreased sales revenue of business customers. The gross profit margin was 47.8%, the same level as in the first quarter of the previous year (1Q 2018: 47.2%).

In the first quarter, Group's marketing expenses were 5 029 thousand euros, decreasing by 98 thousand euros compared to the same period last year. The decrease in distribution costs is primarily related to the recognition of leases in the Group's balance sheet due to the change in accounting policies of IFRS 16 "Leases".

Equity

As of the end of the first quarter, the equity of the company is negative and the shareholders' meeting on 12 April 2019 confirmed the following resolutions in order to restore equity and comply with the requirements of the Commercial Law: to increase the nominal value of AS Baltika share to 1 euro and to change the existing shares so that for every 10 shares one new share is given, thereafter decrease the nominal value of the share to 0.10 euros and decrease share capital from 4,079 thousand euros to 408 thousand euros to cover the losses. In addition, a decision was taken to increase the share capital by 5 million euros via public offering in August 2019.



KJK Fund, Sicav-SIF, the largest shareholder, holding 38.9% of shares of AS Baltika, has confirmed its willingness to subscribe for new shares pursuant to its proportion of holding and according to terms specified in the Prospectus, up to 5,000 thousand euros depending on usage of other participants' subscription rights. This means that KJK Fund, Sicav-SIF will also subscribe to shares which it is given additional subscription rights according to the allocation terms specified in the Prospectus and which are not subscribed by other shareholders.

The impact of the resolutions confirmed at the General Meeting of Shareholders on the Group's financial position is shown in the pro forma equity table below.

	31 March 2019	pro forma entry(1)	pro forma entry(2)	pro forma

EQUITY				
Share capital at par value	4,079	-3,672	5,000	5,408
Share premium	0	0	0	0
Reserves	1,107	-1,107	0	0
Retained earnings	-5,119	4,779	0	-340
Net profit (loss) for the period	-1,442	0	0	-1,442
TOTAL EQUITY	-1,375	0	5,000	3,625

(1) pro forma entry agenda number 7 of the annual general meeting of shareholders impact: "To decrease the share capital in the remaining amount of losses 4,012,972 euros after all reserves have been used to cover these losses by simplified reduction as follows: to decrease the share capital with three million six hundred seventy one thousand five hundred thirty six (3,671,536) euros.

(2) pro forma entry agenda number 8 of the annual general meeting of shareholders impact: "To increase the share capital of AS Baltika by issuing additionally fifty million (50,000,000) ordinary shares with the nominal value of 0.10 euros with the issuance price of 0.10 euros. The share capital of AS Baltika will be increased by five million (5,000,000) euros and the new amount of the share capital is 5,407,949 (five million four hundred seven thousand nine hundred and forty nine) euros."

Highlights of the period until the date of release of this quarterly report

* In March 2019, the Supervisory Board of AS Baltika approved the business plan for 2019 and 2020. The main parts of the operational plan are



optimizing the brand portfolio and sales channels, digitalisation and changing the purchasing base. With the transition to an optimized brand portfolio, significant simplification of business processes and dissolving the production in Estonian production units, Baltika Group's fixed costs will be reduced by nearly two million euros over the next 12 months.

- * In March 2019, the Supervisory Board of AS Baltika approved Mae Hansen, the third member of the management board of AS Baltika. She is responsible for implementing the company's 2019 and 2020 business plan.
- * In 14 March 2019 the Supervisory Board decided to present to the general meeting of shareholders the proposal to increase the nominal value of the share to 1 euro and to exchange the existing shares so that for each 10 shares one new share is given, thereafter decrease the nominal value of the share to 0.10 euros and decrease share capital from 4,079 thousand euros to 408 thousand euros to cover the losses in order to implement the 2019-2020 operational plan and meet the net asset requirement set out in the Commercial Code.
- * In 14 March 2019 Supervisory Board decided to propose to the general meeting of shareholders to increase in August 2019 the share capital by 5 million euros via public offering.
- * In 14 March 2019 Supervisory Board gave the consent to the management board to take a loan of 3 million euros from KJK Fund SICAV-SIF in the next 2 months. The loan was taken into two parts - 1,500 thousand euros was taken in March 2019 and 1,500 thousand euros in April 2019. The loan bears a 6% interest and is repaid from the funds generated from the share emission in August 2019.
- * In 12 April 2019, the Annual General Meeting of AS Baltika shareholders approved the annual report for 2018 and the confirmation of losses. The General Meeting resolved to recall Valdo Kalm, member of the Supervisory Board of AS Baltika. In order to bring the equity into accordance with the requirements of the Commercial Code, the general meeting adopted a decision to increase the nominal value of AS Baltika share to 1 euros and to exchange the existing shares so that 1 new share can be received for every 10 shares, then reduce the nominal value of the share to 0.1 euros and reduce the share capital from 4,079 thousand to 408 thousand euros to cover losses. In addition, a decision was made to increase the share capital by 5 million euros via public offering in August 2019.

Consolidated statement of financial position

31 March 2019 31 Dec 2018

ASSETS

Current assets

Cash and cash equivalents	465	428
Trade and other receivables	1,092	866



Inventories	10,48	10,707
Total current assets	12,037	12,001
Non-current assets		
Deferred income tax asset	286	286
Other non-current assets	213	287
Property, plant and equipment	18,288	1,878
Intangible assets	529	543
Total non-current assets	19,316	2,994
TOTAL ASSETS	31,353	14,995

LIABILITIES AND EQUITY

Current liabilities

Borrowings	15,957	7,829
Trade and other payables	5,907	5,934
Total current liabilities	21,864	13,763

Non-current liabilities

Borrowings	10,864	1,165
Total non-current liabilities	10,864	1,165
TOTAL LIABILITIES	32,728	14,928

EQUITY

Share capital at par value	4,079	4,079
Share premium	0	0
Reserves	1,107	1,107
Retained earnings	-5,119	0



Net profit (loss) for the period	-1,442	-5,119
TOTAL EQUITY	-1,375	67
TOTAL LIABILITIES AND EQUITY	31,353	14,995

Consolidated statement of profit and loss and comprehensive income

	1Q 2019	1Q 2018

Revenue	9,27	10,343
Cost of goods sold	-4,836	-5,46
Gross profit	4,434	4,883
Distribution costs	-5,029	-5,127
Administrative and general expenses	-598	-595
Other operating income (-expense)	117	-17
Operating profit (loss)	-1,076	-856
Finance costs	-366	-126
Profit (loss) before income tax	-1,442	-982
Income tax expense	0	0
Net profit (loss) for the period	-1,442	-982



Total comprehensive income (loss) for the period	-1,442	-982
Basic earnings per share from net loss for the period, EUR	-0.04	-0.02
Diluted earnings per share from net loss for the period, EUR	-0.04	-0.02

??

?

Maigi Pärnik-Pernik
Member of the Management Board
maigi.parnik@baltikagroup.com

?

