

## **Summary of AS Baltika reorganization plan**

According to the reorganization plan major restructuring measures are finishing the successfully started strategic turnaround with it's goal of cutting fixed costs, applying applicable COVID-19 measures, and engaging additional financing and restructuring creditor's claims.

### **Executing company's restructuring**

Due to the fact that Baltika's business model needed modernization and high fixed costs were caused by the implementation of the business model, decision to make radical business model changes was made in 2019 (in addition to already earlier made decision regarding exiting loss making own production activity in Estonia). New model focuses on optimizing sales channels, simplifying business processes (mostly via digitalization) and sharply decreasing operating costs. If previously, fixed costs comprised 50% of total costs, then new objective was set to move fixed costs below 50% of the total cost base. Cost cutting leans on increasing the core processes efficiencies, increasing remote and flexible working possibilities and rearranging logistics. In summary, in 2020 fixed costs will decrease by ca 0.6 million and in 2021 by 1.6 million (-25%) compared with previous year.

In course of the already started sales channels optimization focus is set on Baltic retail and e-channel. By the end of 2021 the number of brands and branded channels shall be optimized together with the shop portfolio. Retail management model will be flattened, shop employees profiles modernized and e-shop upgraded. These measures will help, assuming the end of emergency states in the Baltics, to increase parent company's sales revenue by ca 8% annually after the end of the COVID-19 crises. E-shop sales are estimated to increase by 20% per annum over the coming years.

Baltika's objective is to upgrade current quite complex and stuck-in-the-past business processes to make them easier, faster and more efficient. In the coming years digitalization of key processes will take place, this includes 3D in product development leading to sample free process, artificial intelligence in stock management, digital solution in customer service, internationalization in design- and product development, as well as increasing the sales and marketing capabilities.

New business model adjustment started in April 2019 and already at the time of the reorganization proceedings kick-off positive impact from these changes was apparent to Baltika's cash flows and fixed costs. Baltika plans to finish the business model restructuring in course of the reorganization process to achieve most optimal fixed cost level and to create fertile soil for company's future growth and expansion after the reorganization (and if possible already in course of the reorganization).

### **Restructuring of creditor's claims**

The reorganization plan covers claims that had become collectible at the time of the initiation of the reorganization proceedings (26.03.2020). Also, claims arising from loan agreements in the amount of the entire loan agreement and claims arising from those guarantees issued by Baltika, in respect of which Baltika already knew before the commencement of the reorganization

proceedings that the guarantee obligation must be fulfilled. In addition, the reorganization plan also covers the interest for the delay and interest claims that have become due at the time the reorganization proceedings were initiated.

According to the reorganization plan creditors are divided into two groups: Group I comprise of all claims secured by pledge and Group II comprises of all other i.e. unsecured claims. According to the Reorganization Act employment claims shall not be restructured in the reorganization plan. Claims that are not included in the reorganization plan shall be paid in course of normal business activities.

Principle of the claims secured by pledge, which are in Group I in the reorganization plan, shall not be decreased. Collateral claims that have fallen due prior to the commencement of the reorganization proceedings, including interest claims, are reduced to 0. Group I creditors' claims shall be fulfilled so, that claim shall be paid in equal monthly installments from July 2021 until December 31<sup>st</sup> 2023. In addition, Group I creditors will receive 2% interest rate on the unpaid claim balance.

Unsecured claims principal, which is in Group II, shall decreased by 85% to 15%. Decreased principle claim shall be paid out in annual installments within three years so that first installment is made year after the approval of the reorganization plan. Group II claims for default interest, which have become due at the time of the reorganization procedure is initiated shall be reduced to 0. Group II creditors shall not receive any interest.

### **Applying for governmental COVID-19 aid measures**

In addition to finalizing the already started business restructuring and restructuring the claims, Baltika has also applied additional measure to overcoming the temporary payment difficulties. These include applying to applicable state aid measures like for instance realization of tax benefits and payroll support from Unemployment Insurance Fund.

### **Engaging additional funding**

In case of Baltika's reorganization plan's approval additional financing is possible. Baltika's majority shareholder KJK Fund has expressed its readiness to provide Baltika with an additional loan of up to 4 million euros under certain conditions after the approval of the reorganization plan. SA Kredex is also ready to give a 5-year loan to Baltika in the amount of up to 4 million euros after the approval of the reorganization plan.

Additionally raised financing shall be utilized to cover fixed costs, which Baltika is not able to cover due to the sharp sales revenue drop caused by emergency state. In addition, financing is needed for investments to finalize the business restructuring, that has already helped and will help even more in the future to decrease fixed costs. Baltika estimates, that upon ending of the emergency state sales shall not recover immediately to pre-crises levels and financing from loans will help to continue business activities until the normal market conditions are restored.

All prognoses in the reorganization plan are current estimations and they can change based on the market conditions and external factors. For the monitoring of the success of the reorganization proceedings and the reorganization plan, restructuring of the creditors' claims is the prevailing factor and that shall not change.

Approval of reorganization plan shall ensure Baltika's creditor's claims fulfillment in the best possible manner. Also, reorganization plan's approval shall assure Baltika's business continuity and preservation of many industry specific jobs. Failure of the reorganization process will bring along Baltika's bankruptcy and disappearance of a company that has been and is the industry leader, with social and societal importance, as well as loss of notable jobs. In this instance, all unsecured creditor's claims shall not be fulfilled during the bankruptcy process and secured creditor's claims shall be fulfilled in lesser extent than in reorganization.