EUROPEAN LINGERIE GROUP

EUROPEAN LINGERIE GROUP AB

QUARTERLY REPORT - NINE MONTHS AND THIRD QUARTER

1 JANUARY 2019 – 30 SEPTEMBER 2019

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General information

European Lingerie Group AB (previously Goldcup 15769 AB) (the "Parent" and together with its subsidiaries the "Group") is a Public Limited Liability Company domiciled in Sweden. At 30 September 2019 the Group had 20 wholly owned subsidiaries, a representative office located in Russia and a joint venture company located in Latvia.

Type of operations

European Lingerie Group AB is fully vertically integrated intimate apparel and lingerie group, which produces lace and fabrics for largest lingerie brands under Lauma Fabrics brand name, medical textiles under Lauma Medical brand name, as well as designs, manufactures and distributes branded premium lingerie garments under Conturelle, Felina and Senselle brands. It has successfully embarked upon a growth strategy involving international merger & acquisition targets and building size, and is today a renowned and strong player in the European intimate apparel industry.

The Group is headquartered in Sweden, European Union. The Group operates its own production facilities in Latvia, Hungary, Belarus and Germany. It trades in 46 countries and its markets include Germany, Austria, France, Italy, Spain, Belgium, Netherlands, Finland, Denmark, Switzerland, Sweden, Norway, Slovakia, Slovenia, Portugal, Poland, Czech Republic, Greece, Hungary, UK and Baltic States in Europe and USA, Canada, China, Australia and New Zealand, Georgia, Iceland, Sri Lanka, Morocco, Israel, Lebanon, Russia and CIS countries in the rest of the world.

The combined turnover of Group's entities for 2018 (as if all entities were in the Group from the beginning of the year) exceeded EUR 77 million and the combined workforce was over 1,200 people.

Short description of the Company's activities in the reporting quarter

As the transformation of the retail channels in the Southern and Central Europe still continues and the macroeconomy is slowing down in most European markets, which limits the recovery speed to some extent, the sales results of the third quarter of 2019 for European Lingerie Group were lower than previous year. Additional temporary reduction in the lingerie segment revenue in Q3 2019 was a result of delays in shipments, which shifted part of the revenue to Q4 2019.

Due to reasons further described in this Report, the Group's Net Interest Bearing Debt to EBITDA ratio has exceeded the maximum 4.25 allowed under the maintenance test of the Bond Terms and Conditions. Such breach of the maintenance test constitutes an event of default under the Bond Terms and Conditions. As a result, the Group has been in contact with some of the largest bondholders to negotiate a solution. ELG intends to initiate a written procedure to amongst other (i) waive the event of default arising as a result of the breach of the maintenance test, (ii) enable the Group to conduct certain restructurings to increase its EBITDA and (iii) to increase the Net Interest Bearing Debt to EBITDA ratio. Further, capital injections (by way of equity and/or subordinated debt) shall be made to the Issuer of not less than EUR 7,300,000 of which EUR 1,300,000 shall be made on the date the Bond Terms and Conditions are amended and applied against general corporate purposes and EUR 6,000,000 shall be made no later than 31 May 2020 and applied against redemption of the Bonds.

Bondholders representing over 50% of the outstanding bonds have already notified the Group that they will vote in favour of the proposal described above in a written procedure.

Financial highlights of the reporting quarter

Selected financial indicators

Selected financial indicators of the Group were calculated on the basis of the consolidated interim financial statements of European Lingerie Group AB for 9 months 2019, Q3 2019 and pro forma financial information for 9 months 2018 and Q3 2018. As the Group adopted IFRS 16 Leases starting from 1 January 2019 (refer to Note 3 for further details) and the impact of the standard is material, 9 months 2018 pro forma and Q3 2018 reported figures were adjusted as well to include the impact of IFRS 16 for better comparativeness (unless otherwise indicated). IFRS 16 impact on 9 months 2018 and Q3 2018 was calculated as if the standard had been adopted from 1 January 2018.

Refer to page 9 for the description of the pro forma financial information and pro forma assumptions. Summarized selected financial indicators of the Group for 9 months 2019 compared to 9 months 2018, Q3 2019 compared to Q3 2018, and 30.09.2019 compared to 30.09.2018 and 31.12.2018 were as follows:

In thousands of EUR	9 months 2019 (Actual)	9 months 2018 (Pro forma)	Change
Revenue	58,867	59,156	-0.5%
Normalised operating profit[1]	4,824	5,731	-15.8%
Normalised EBITDA[2]	7,619	8,783	-13.3%
Normalised net profit /(loss)[3]	1,085	1,567	-30.7%
Operating cash flow for the period	1,488	1,625	-8.4%

In thousands of EUR	Q3 2019 (Actual)	Q3 2018 (Pro forma)	Change
Revenue	18,882	20,809	-9.3%
Normalised operating profit[1]	2,063	3,195	-35.4%
Normalised EBITDA[2]	2,991	4,183	-28.5%
Normalised net profit /(loss)[3]	660	1,673	-60.6%
Operating cash flow for the period	472	1,943	-75.7%

[1]Normalised operating profit is calculated as the profit of the Group before interest and tax for the relevant period, and adjusted, if necessary, for one-off and non-recurring items.
[2]Normalised EBITDA is calculated as the profit of the Group before interest, tax, depreciation and amortisation for the relevant period, and adjusted, if necessary, for one-off and non-recurring items.
[3]Normalised net profit/(loss) is calculated as the net profit of the Group for the relevant period adjusted, if necessary, for one-off and non-recurring items.

In thousands of EUR	30.09 2019 (Actual)	31.12 2018 (Pro forma)	Change to 31.12. 2018	30.09. 2018 (Pro forma)	Change to 30.09 2018
Total assets	71,250	69,173	3.0%	70,459	1.1%
Total current assets	39,238	35,723	9.8%	36,542	7.4%
Cash and cash equivalents	1,855	1,335	39.0%	2,102	-11.8%
Total current liabilities	16,866	14,612	15.4%	14,687	14.8%
Gross interest-bearing debt[4]	46,574	44,865	3.8%	43,768	6.4%
Net interest-bearing debt[5]	44,719	43,530	2.7%	41,666	7.3%

[4]Gross interest-bearing debt includes non-current and current loans and borrowings.
[5]Net interest-bearing debt is calculated as gross interest-bearing debt less cash and cash equivalents.

Marginal analysis, %	9 months 2019 (Actual)	9 months 2018 (Pro forma)	Change
Normalised operating profit margin	8.2%	9.7%	-1.5pp
Normalised EBITDA margin	12.9%	14.8%	-1.9pp
Normalised net profit margin	1.8%	2.6%	-0.8pp

Marginal analysis, %	Q3 2019 (Actual)	Q3 2018 (Pro forma)	Change
Normalised operating profit margin	10.9%	15.4%	-4.5pp
Normalised EBITDA margin	15.8%	20.1%	-4.3pp
Normalised net profit margin	3.5%	8.0%	-4.5pp

Financial ratios	30.09.2019 (Actual)	30.09.2018 (Pro forma)[6]	31.12.2018 (Pro forma)
12 months normalised rolling net profit/(loss)[7]	(330)	Not available	152
ROA (return on assets)[8]	-0.5%	Not available	0.2%
Current ratio[9]	2.3	2.5	2.4
Quick ratio[10]	1.1	1.2	1.1
12 months rolling normalised EBITDA[11]	9,323	Not available	10,487
Net debt/EBITDA[12]	4.8	Not available	4.2

[6] Ratios marked as "Not available" cannot be calculated due to the absence of data regarding IFRS 16 impact on the year 2017.
[7] 12 months rolling normalised net (loss)/ profit is a net (loss)/ profit for the period from 1 October 2018 to 30 September 2019 and from 1 January 2018 to 31 December 2018.
[8] ROA (return on assets) is calculated as the 12 months normalised rolling net profit divided by the average total assets for the relevant period.
[9] Current ratio is calculated as total current assets divided by total current liabilities.
[10] Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities.
[11] 12 months rolling normalised EBITDA is EBITDA for the period from 1 October 2018 to 30 September 2019 and from 1 January 2018 to 31 December 2018.
[12] Net debt/EBITDA is calculated as net interest-bearing debt divided by 12 months rolling normalised EBITDA.

Financial performance

Financial performance of the Group was analysed on the basis of the reported financial information of European Lingerie Group AB for 9 months 2019, Q3 2019 as well as pro forma financial information for 9 months 2018, Q3 2018. As the Group adopted IFRS 16 Leases starting from 1 January 2019 (refer to Note 3 for further details) and the impact of the standard is material, 9 months 2018 pro forma and Q3 2018 reported figures were adjusted as well to include the impact of IFRS 16 for better comparativeness (unless otherwise indicated). IFRS 16 impact on 9 months 2018 and Q3 2018 was calculated as if the standard had been adopted from 1 January 2018. Refer to page 9 for the description of the pro forma financial information and pro forma assumptions.

The Group's sales amounted to EUR 58,867 thousand in 9 months 2019 (Q3 2019: EUR 18,882 thousand), representing a 0.5% decrease as compared to pro forma sales of 9 months 2018 (9.3% decrease to pro forma sales of Q3 2018). In 9 months 2019, the decrease in sales was a result of the decrease in lingerie segment, while textiles were slightly above last year. Q3 2019 sales demonstrated a decrease in both segments which is expected to be partially recovered in Q4 2019. The continuing decrease in revenue is explained mainly by the general economic slow-down in the Western Europe and poor performance of the lingerie retail sector. Additional temporary reduction in the lingerie segment revenue in Q3 2019 was a result of delays in shipments, which shifted to Q4 2019.

Profitability margins in 9 months 2019 and Q3 2019 are better than in the previous two quarters, though below previous year which is explained by a change in accounting estimate for write downs of finished goods in Q3 2018, which boosted the performance in Q3 2018 at the expense of other quarters, resulting in a weaker Q3 2019 in comparison. The change in accounting estimate for write downs of finished goods was made in order to be in line with the historical statistics on write downs and net realisable values and resulted in EUR 1,103 thousand increase in EBITDA in Q3 2018 based on recalculated position of write downs as of 30 September 2018. The recalculation included the impact of the reported quarter and all previous periods and was recognised prospectively in the period of the change in accordance with IAS 8. Normalised EBITDA in 9 months 2019 amounted to EUR 7,619 thousand (Q3 2019: EUR 2,991 thousand) and decreased by 13.3% compared to pro forma normalised EBITDA in 9 months 2018 (28.5% decrease to pro forma normalised EBITDA for Q3 2018). Normalised EBITDA margin in 9 months 2019 and 9 months 2018 was 12.9% and 14.8% respectively (Q3 2019 and Q3 2018: 15.8% and 20.1% respectively). Normalised net profit in 9 months 2019 amounted to EUR 1,085 thousand (Q3 2019: EUR 660 thousand), compared to pro forma normalised net profit of EUR 1,567 thousand in 9 months 2018 (Q3 2018: EUR 1,673 thousand). Normalised net profit margin in 9 months 2019 and 9 months 2018 was 1.8% and 2.6% respectively (3.5% and 8.0% in Q3 2019 and Q3 2018 respectively).

Financial position

Financial position of the Group at 30 September 2019 was consolidated position as per the consolidated interim financial statements of European Lingerie Group AB for 9 months 2019. Financial position of the Group at 30 September 2018 and 31 December 2018 was calculated on the basis of the pro forma financial information. Refer to page 9 for the description of the pro forma financial information and pro forma assumptions.

At 30 September 2019 consolidated total assets amounted to EUR 71,250 thousand representing an increase of 1.1% as compared to the pro forma statement of financial position at 30 September 2018 (3.0% as compared to the pro forma statement of financial position at 31 December 2018). An increase to both periods is explained by growth in inventories.

Inventories balance increased by 16.7% compared to the balance at 30 September 2018 (increased by 12.1% compared to the balance at 31 December 2018). The increase mainly relates to the newly contracted consignment arrangements with customers in 2019 as well as the production and delivery of new products and collections, in particular Senselle by Felina and Felina 1885 lingerie collections, which required additional working capital in inventories. In addition to that, due to the partial shift of sales in the lingerie segment from Q3 2019 to Q4 2019, these goods stayed in the stock as well at 30 September 2019.

Current trade and other receivables are at normal level for this time of the year and are in line with the revenue trend.

Loans and borrowings at 30 September 2019 increased by EUR 1,709 thousand compared to 31 December 2018, which is explained by the increase in the utilised credit line facilities in order to finance working capital of the new product collections and consignment arrangements as well as a new finance lease for the stenter equipment (refer to Note 16 for further details).

Trade and other payables at 30 September 2019 were EUR 11,140 thousand and decreased by EUR 448 thousand compared to 30 September 2018 (increased by EUR 621 thousand compared to 31 December 2018) which is considered a normal level for this time of the year.

Sales

Sales structure of the Group was calculated on the basis of the reported financial information of European Lingerie Group AB for 9 months 2019 and Q3 2019, as well as pro forma financial information for 9 months 2018 and Q3 2018. Refer to page 9 for the description of the pro forma financial information and pro forma assumptions.

Sales by markets

Core operating markets for European Lingerie Group are Germany, Spain, France, Poland, Benelux countries, Baltic countries, Russia, Belarus and Ukraine. Group's sales in its core markets in 9 months 2019 were 81.5% of its total sales against 84.0% in 9 months 2018 (82.1% in Q3 2019 against 84.0% in Q3 2018). Decrease in the core markets is temporary and is explained by the general macroeconomic and retail situation in each particular country. In some countries, the decrease is temporary and caused by the shift of turnover between quarters.

The Group's sales results by markets were as follows:

In thousands of EUR	9 months 2019 (Actual)	9 months 2018 (Pro forma)	Change, %	9 months 2019, % of sales	9 months 2018, % of sales
Germany	13,191	14,446	-8.7%	22.4%	24.4%
Russia	7,773	5,995	29.7%	13.2%	10.1%
Baltic countries[13]	6,815	8,048	-15.3%	11.6%	13.6%
France	5,032	6,205	-18.9%	8.5%	10.5%
Belarus	3,924	3,233	21.4%	6.7%	5.5%
Benelux countries[14]	4,246	4,606	-7.8%	7.2%	7.8%
Poland	3,403	3,399	0.1%	5.8%	5.7%
Spain	2,506	2,563	-2.2%	4.3%	4.3%
Ukraine	1,061	1,220	-13.0%	1.8%	2.1%
Other markets	10,916	9,441	15.6%	18.5%	16.0%
Total	**58,867**	**59,156**	**-0.5%**	**100.0%**	**100.0%**

In thousands of EUR	Q3 2019 (Actual)	Q3 2018 (Pro forma)	Change, %	Q3 2019, % of sales	Q3 2018, % of sales
Germany	4,460	5,180	-13.9%	23.6%	24.9%
Russia	2,506	2,358	6.3%	13.3%	11.3%
Baltic countries[13]	2,038	2,648	-23.0%	10.8%	12.7%
France	1,701	2,127	-20.0%	9.0%	10.2%
Belarus	982	1,041	-5.7%	5.2%	5.0%
Benelux countries[14]	1,452	1,605	-9.5%	7.7%	7.7%
Poland	1,014	1,081	-6.2%	5.4%	5.2%
Spain	1,030	1,176	-12.4%	5.5%	5.7%
Ukraine	328	270	21.5%	1.7%	1.3%
Other markets	3,371	3,323	1.5%	17.8%	16.0%
Total	**18,882**	**20,809**	**-9.3%**	**100.0%**	**100.0%**

[13]Latvia, Estonia and Lithuania

[14]Belgium, the Netherlands and Luxembourg

The largest growth in sales in 9 months 2019 was in Russia and Belarus. These markets grew by 29.7% and 21.4% respectively in 9 months 2019 (6.3% and -5.7% respectively in Q3 2019). Sales in Russia in 9 months 2018 were very limited due to postponement of orders by two largest Felina and Conturelle distributors in Russia. 2019, in its turn, did not have extraordinary circumstances; thus, the sales were at a normal level with the growing trend. Russia is also one of the main customers for Felina swimwear and Senselle by Felina lingerie ready garments, which pushed the sales up even further. Sales in Belarus grew in the textile segment of the Group and was a result of the growth of medium lingerie sewing companies in the country.

Poland stayed flat in 9 months 2019, whereby sales in this country in Q3 2019 decreased by 6.2%. Deviation in sales between quarters is mainly a cut-off and delivery driven aspect and evens out on an annual basis.

Sales in Germany, France, Benelux and Spain decreased by 8.7%, 18.9%, 7.8% and 2.2% respectively in 9 months 2019 due to the slowdown of the European macroeconomy and blocked potential growth (Q3 2019: drop by 13.9% in Germany, 20.0% in France, 9.5% in Benelux, 12.4% in Spain). In addition to that, due to the merger of the two largest German department store chains Galeria Kaufhof and Karstadt, their purchasing in 2019 was significantly slowed down during the transaction process. The balance of sales growth vs margin is still the main issue in France in the current and the coming periods as the Group's main competitors in the region continue suffering and try to improve their sales by reducing prices and offering higher discounts to customers not only for previous season collections, but also for novelties. In part of these cases the Group chooses not to follow the general price trend and to better sell less, but at better margin. As explained in the trend of other countries, also here quarterly fluctuations in sales include in addition order and delivery cut-off factor, which evens out on an annual basis.

Sales in the Baltic countries reduced by 15.3% in 9 months 2019 (Q3 2019: decrease by 23.0%) and it related to the textile segment of the Group. Most of the Baltic customers of the Group suffered from changes in the importing rules into Russia and as a result, did not have quick enough capital turn to continue ordering raw materials. In addition to that with continuing labour inflation in the Baltics, some customers could not recover the previous level of turnover due to lack of price competitiveness in their sales markets.

Sales in Ukraine dropped by 13.0% in 9 months 2019 (Q3 2019: increased by 21.5%). Customers of the Group in this country have number of ordering rounds and the ordering weeks are not exactly the same between the years, thus it influences the sales results in particular periods.

Sales by business segments

The Group has the following two strategic divisions, which are its reportable segments. These divisions offer different products and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Textiles	Manufacturing, processing and wholesale of textiles
Lingerie	Manufacturing, processing, wholesale and retail (including online) of lingerie products

The Group's sales results by business segments were as follows:

In thousands of EUR	9 months 2019 (Actual)	9 months 2018 (Pro forma)	Change, %	9 months 2019, % of sales	9 months 2018, % of sales
Textiles	25,117	25,014	0.4%	41.1%	40.9%
Lingerie	34,651	34,942	-0.8%	58.9%	59.1%
Intercompany eliminations	(901)	(800)			
Total	**58,867**	**59,156**	**-0.5%**	**100.0%**	**100.0%**

In thousands of EUR	Q3 2019 (Actual)	Q3 2018 (Pro forma)	Change, %	Q3 2019, % of sales	Q3 2018, % of sales
Textiles	7,214	7,982	-9.6%	36.5%	37.5%
Lingerie	11,990	13,011	-7.8%	63.5%	62.5%
Intercompany eliminations	(322)	(184)			
Total	**18,882**	**20,809**	**-9.3%**	**100.0%**	**100.0%**

During 9 months 2019, textiles segment performed slightly better than in 9 months 2018 while lingerie had a slight decrease. Both segments were considerably below previous year in Q3 which was driven by the decrease of sales in particular markets explained above.

Investments

During 9 months 2019 the Group invested into property plant and equipment and intangible assets EUR 2,549 thousand compared to EUR 1,120 thousand in 9 months 2018 on a pro forma basis. Q3 2019 investments amounted to EUR 1,149 thousand compared to EUR 803 thousand in Q3 2018. The main investments during 9 months 2019 related to the remaining payment for the spacer molding equipment for LSEZ Lauma Fabrics SIA, the purchase of 2 new knitting machines, lace and racheltronic technology, the remaining payment for the stenter acquired by LSEZ Lauma Fabrics SIA and first instalments for Magento and Open ERP platform migration project in Dessus-Dessous S.A.S.

In addition to this, the Group continued investing in its new sewing plant in Belarus, whereby it increased the number of sewing machines there and developed a new material cutting facility, which is necessary for sewing operations.

Further development of the Group

The Group has had a difficult last year after the acquisition of Felina group and Dessus-Dessous S.A.S. It continues realising its strategy of the vertical integration, which takes time and bears costs during the transformation phase of the previous processes. In 2019, the Group's new product lines, i.e. the backup brand Senselle by Felina and Felina swimwear, started bringing volumes and the contribution of the new collections to total sales will continue throughout the whole year.

On the production side, the Group continues investing in its manufacturing base in order to improve the quality of its products as well as to be able to offer better and new materials to its customers. The result of these investments is gradually converting into the cost savings and profit margin improvement.

Due to the dropped profitability, the Group has prepared an action plan with specific measures aimed at recovery of the initial profitability in order to have a sustainable business model for the medium and long-term. The measures are planned to be initiated following the approval of the bondholders.

During the discussion with the bondholders, the Group has shared with them the forecast for the full financial years 2019 and 2020. For FY2019 the Group expects total revenue of EUR 77.2 million, normalised EBITDA of EUR 9.1 million and the Net Interest Bearing Debt at 31 December 2019 of EUR 44.8 million. For FY2020 the Group expects total revenue of EUR 78.0 million, normalised EBITDA of EUR 10.4 million and the Net Interest Bearing Debt of EUR 39.1 million following the projected amortisation of bonds.

Reported financials for the nine months 2019 and third quarter 2019 and pro forma financials for comparative periods

Description of pro forma financial information and pro forma assumptions used for comparative periods

European Lingerie Group AB was established on 23 November 2017. The Company did not have any operations in 2017. Shortly after its registration, on 3 January 2018 the Company was acquired by Myrtyle Ventures Ltd and on 19 February 2018 it became the Parent company of European Lingerie Group. The shareholder change was accomplished by way of contributing SIA European Lingerie Group (previously AS European Lingerie Group) shares into the equity of European Lingerie Group AB. The acquisition of SIA European Lingerie Group was treated by European Lingerie Group AB as a transaction under common control and was accounted for using the prospective pooling-of-interest method, i.e. earnings of SIA European Lingerie Group were included in European Lingerie Group AB consolidated earnings from 3 January 2018.

In 2018 the Group had one acquisition, which was a business combination. Felina France S.a.r.l., a subsidiary of European Lingerie Group AB, acquired 100% of shares in Dessus-Dessous S.A.S on 14 June 2018, which was consolidated into the Group starting from 30 September 2018 (the Transaction).

Based on the above, the Group has prepared pro forma financial information presenting a description of how the acquisition transaction might have affected the consolidated earnings of European Lingerie Group, had the Transaction been undertaken at the commencement of the year 2017.

As the Group adopted *IFRS 16 Leases* starting from 1 January 2019 (refer to Note 3 for further details) and the impact of the standard is material, 9 months 2018 and Q3 2018 pro forma figures were adjusted as well to include the impact of IFRS 16 for better comparativeness. IFRS 16 impact on 9 months 2018 and Q3 2018 was calculated as if the standard had been adopted from 1 January 2018.

Pro forma financial information has been prepared for the purpose of giving the stakeholders of European Lingerie Group a better overview of the financial consequences of the Transaction and ensuring better comparability of the current performance as compared to historical performance. The pro forma financial information has been prepared for illustrative purposes only and because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

In preparing the pro forma financial information, ELG Group performed a hypothetical consolidation of the results of Dessus-Dessous S.A.S for 9 months 2018 eliminating intercompany transactions between this company and the Group based on individual company performance during this period. The impact of accounting for the share acquisition in the Transaction (including, but not limited to the purchase price allocation and goodwill) and related financing of the Transaction (including, but not limited to the financial indebtedness and cost of financing) has not been included in the presented pro forma financial information.

The pro forma financial information has been prepared on the basis of the unaudited IFRS interim financial statements of European Lingerie Group and Dessus-Dessous S.A.S for 9 months 2018 and Q3 2018. The compiled pro forma financial statements have not been audited or reviewed by the external auditors.

Statement of Profit or Loss

In thousands of EUR	9 months 2019 (Actual)	9 months 2018 (Pro forma)	Q3 2019 (Actual)	Q3 2018 (Pro forma)
Revenue	**58,867**	**59,156**	**18,882**	**20,809**
Other operating income	2,690	1,671	1,255	494
Changes in inventories of finished goods and work in progress	3,046	706	676	(866)
Raw materials and services	(23,113)	(21,053)	(7,197)	(6,794)
Employee benefits expense	(19,709)	(19,203)	(6,183)	(6,114)
Depreciation and amortisation	(2,795)	(3,052)	(928)	(988)
Impairment loss on trade receivables and contract assets	23	(91)	15	(30)
Other operating expenses	(14,217)	(13,665)	(4,486)	(3,420)
Operating profit	**4,792**	**4,469**	**2,034**	**3,091**
Finance income	370	291	106	135
Finance costs	(3,435)	(3,553)	(1,158)	(1,202)
Net finance costs	**(3,065)**	**(3,262)**	**(1,052)**	**(1,067)**
Profit/(loss) before income tax	**1,727**	**1,207**	**982**	**2,024**
Income tax expense	(1,091)	(1,173)	(492)	(559)
Profit/(loss) for the period	**636**	**34**	**490**	**1,465**
Profit attributable to:				
Owners of the Company	636	34	490	1,465
Reported EBITDA	**7,587**	**7,521**	**2,962**	**4,079**
Adjusted by:				
Restructuring of brands, subsidiaries	-	90	-	90
Transaction costs	4	1,039	-	-
Net gain/loss on disposal of intangible assets and property, plant and equipment	68	-	(22)	-
Gain on disposal of subsidiary	(217)	-	-	-
Inventory write-off under purchase price allocation exercises	-	34	-	-
Other	177	99	51	14
Normalised EBITDA	**7,619**	**8,783**	**2,991**	**4,183**
Reported net profit/(loss)	**636**	**34**	**490**	**1,465**
Normalisation adjustments	449	1,572	171	236
Tax effect on normalization adjustments	-	(39)	(1)	(28)
Normalised net profit/(loss)	**1,085**	**1,567**	**660**	**1,673**

Commentary on the calculation of normalised EBITDA and net profit

For purposes to illustrate the normalized and sustainable EBITDA and net profit of the pro forma Group the following adjustments regarding events that are not expected to be recurring are made:

- *Restructuring of brands/subsidiaries* in 9 months 2018 related to restructuring/consolidation of some functions within Felina Group which caused one-off dismissal costs and closure costs.
- *Transaction costs* in 9 months 2019 related to acquisition of Yustina OOO (renamed to Senselle OOO). Transaction costs in 9 months 2018 and Q3 2018 related to the issue of bonds by European Lingerie Group AB and acquisition of Dessus-Dessous S.A.S.
- *Inventory write-off under purchase price allocation exercises* included gross profit margin distortion effect at consolidated level as a result of sale of AO Avangard inventories that had been acquired in the business combination and sold during 2018. At acquisition date, AO Avangard finished goods were recognised at fair value, which afterwards adversely affected the gross profit margin upon sale of those finished goods. The effect of the impact in Q1 2018 amounted to EUR 34 thousand.
- *Gain on disposal of subsidiary* included net amount of profit recognised (difference between consideration received and net assets disposed) as a result of Brafetch GmbH disposal. For further details on the transaction refer to Note 19.
- *Other costs* in 9 months 2018 and Q3 2018 included various consultancy costs related to the planned bond listing and further potential acquisitions. Other costs in 9 months 2019 and Q3 2019 included costs related to the establishment and activities of the new subsidiary in Germany - Brafetch GmbH and various consultancy costs related to potential investment projects.
- *Normalisation adjustments for net profit* included interest expense related to the amortization of transaction costs on bonds issue in amount of EUR 419 thousand and EUR 309 thousand for 9 months 2019 and 9 months 2018 respectively (Q3 2019: EUR 144 thousand and Q3 2018: 131).

Statement of Financial Position

In thousands of EUR	30 September 2019 (Actual)	30 September 2018 (Pro forma)	31 December 2018 (Pro forma)
Assets			
Property, plant and equipment	11,273	11,550	11,729
Intangible assets	14,754	15,305	15,207
Right-of-use assets	4,023	4,074	3,793
Deferred tax assets	1,615	2,692	2,333
Trade and other receivables	347	296	388
Total non-current assets	**32,012**	**33,917**	**33,450**
Inventories	21,302	18,246	19,006
Current tax assets	247	155	384
Trade and other receivables	14,967	15,054	14,032
Contract assets	112	348	26
Prepayments	755	637	940
Cash and cash equivalents	1,855	2,102	1,335
Total current assets	**39,238**	**36,542**	**35,723**
Total assets	**71,250**	**70,459**	**69,173**
Total equity	**4,864**	**6,997**	**4,746**
Liabilities			
Loans and borrowings	41,557	41,693	41,561
Net employee defined benefit liability	3,720	4,406	3,808
Deferred income	392	557	570
Provisions	224	247	213
Other payables	98	-	-
Deferred tax liabilities	3,529	1,872	3,663
Total non-current liabilities	**49,520**	**48,775**	**49,815**
Loans and borrowings	5,017	2,075	3,304
Trade and other payables	11,140	11,588	10,519
Contract liabilities	103	220	292
Current tax liabilities	246	282	170
Provisions	147	229	111
Deferred income	213	293	216
Total current liabilities	**16,866**	**14,687**	**14,612**
Total liabilities	**66,386**	**63,462**	**64,427**
Total equity and liabilities	**71,250**	**70,459**	**69,173**

Statement of Cash Flows

In thousands of EUR	9 months 2019 (Actual)	9 months 2018 (Pro forma)	Q3 2019 (Actual)	Q3 2018 (Pro forma)
Cash flows from operating activities				
Reported EBITDA	7,587	7,521	2,962	4,079
Adjustments for:				
(Reversal of impairment) / impairment loss	(23)	91	(15)	30
Net loss/ (gain) on sale of property, plant and equipment	68	18	(22)	18
Equity-settled share-based payment transactions	(615)	376	(667)	125
Income from government grants	(182)	(232)	(60)	(71)
Gain on bargain purchase	(22)	-	-	-
Gain on disposal of subsidiary	(217)	-	-	-
Changes in:				
Inventories	(2,294)	(1,529)	(175)	(302)
Trade and other receivables	(630)	(1,753)	1,292	(1,209)
Contract assets	(86)	-	6	-
Prepayments	184	(40)	(92)	(81)
Trade and other payables	988	939	(1,872)	760
Contract liabilities	(189)	-	(54)	-
Provisions	47	(14)	114	(72)
Net employee defined benefit liability	(140)	(136)	(46)	(39)
Cash generated from operating activities	**4,476**	**5,241**	**1,371**	**3,238**
Interest paid	(2,658)	(2,391)	(895)	(911)
Income taxes paid	(330)	(1,225)	(4)	(384)
Net cash from operating activities	**1,488**	**1,625**	**472**	**1,943**
Cash flows from investing activities				
Interest received	89	12	79	9
Proceeds from sale of property, plant and equipment	51	-	44	-
Cash disposed on disposal of subsidiary	(2)	-		-
Proceeds from repayment of loans issued	-	424	-	
Acquisition of subsidiaries net of cash acquired	(217)	(7,659)	(226)	(850)
Cash acquired in common control transactions	-	1,874	-	-
Acquisition of property, plant and equipment and intangible assets	(2,549)	(1,120)	(1,149)	(803)
Deposits placed in restricted accounts	-	(5)	-	-
Deposits released from restricted accounts	-	4,500	-	-
Loans issued	-	(9)	-	-
Loans issued to shareholders in lieu of future dividends	-	(77)	-	-
Net cash used in investing activities	**(2,628)**	**(2,060)**	**(1,252)**	**(1,644)**

Statement of Cash Flows
(continued)

In thousands of EUR	9 months 2019 (Actual)	9 months 2018 (Pro forma)	Q3 2019 (Actual)	Q3 2018 (Pro forma)
Cash flows from financing activities				
Proceeds from issue of share capital	-	60	-	-
Proceeds from bonds issue	-	40,000	-	-
Change in bank overdraft	1,840	(1,232)	294	(1,076)
Transaction costs related to bonds issue	-	(1,730)	-	-
Repayment of loans and borrowings	-	(20,021)	-	-
Repayment of convertible notes	-	(12,375)	-	-
Payment of finance lease liabilities	(739)	(720)	-	
Dividends paid	-	(866)	(252)	(250)
Factoring (paid)/ received	(167)	(517)	(109)	203
Proceeds from sale and leaseback transaction	595	-	595	-
Proceeds from grants and donations	-	2	-	-
Net cash from/(used in) financing activities	**1,529**	**2,601**	**528**	**(1,123)**
Net increase in cash and cash equivalents	**389**	**2,166**	**(252)**	**(824)**
Cash and cash equivalents at 1 January / 1 July	1,335	70	2,185	2,972
Effect of movement in exchange rates on cash held	131	(134)	(78)	(46)
Cash and cash equivalents at 30 September	**1,855**	**2,102**	**1,855**	**2,102**

EUROPEAN LINGERIE GROUP AB

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS AND
THIRD QUARTER ENDED
30 SEPTEMBER 2019
(UNAUDITED)

INFORMATION ON THE COMPANY

Name of the company	*European Lingerie Group AB (from 29 January 2018)* *Goldcup 15769 AB (until 29 January 2018)*
Legal status of the company	*Public Limited Liability Company*
Number, place and date of registration	*559135-0136, Stockholm, 23 November 2017*
Legal and postal address	*Norrlandsgatan 16, 111 43 Stockholm, Sweden*
Corporate website	*www.elg-corporate.com*
Core activities	*Manufacturing, processing, wholesale and retail of textiles and lingerie products*
Members of the Board and their positions	*Carl Oscar Edgren, Chairman of the Board (from 11 October 2019)* *Indrek Rahumaa, Chairman of the Board (until 11 October 2019)* *Indrek Rahumaa, Member of the Board (from 11 October 2019)* *Dmitry Ditchkovsky, Board Member* *Fredrik Synnerstad, Board Member (until 11 October 2019)* *Peter Partma, Board Member (until 11 October 2019)*
Managing director	*Indrek Rahumaa (from 11 October 2019)* *Peter Partma (until 11 October 2019)*
Financial year	*1 January 2019 – 31 December 2019*
Reporting period	*1 January 2019 – 30 September 2019*
Information on shareholders	*From 23 April 2019:* *Helike Holdings OU (71.18%),* *Bryum Capial Ltd (24.72%),* *SIA Silver Invest (1.80%),* *SIA Ievades Nozares (1.60%),* *Tuida Holding AB (0.40%) and* *Amorvero Holding OU (0.30%)*
Information on the subsidiaries	*SIA European Lingerie Group (100.0% from 19 February 2018)* *Felina France S.a.r.l. (100.0% from 16 May 2018)* *Senselle OOO (100% from 2 January 2019)*
Auditors	*Ernst & Young AB* *Jakobsbergsgatan 24* *111 44 Stockholm, Sweden*

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months and third quarter ended 30 September

In thousands of EUR	*Note*	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Revenue	*4,5*	**58,867**	**55,399**	**18,882**	**20,809**
Other operating income	*6*	2,690	1,485	1,255	494
Changes in inventories of finished goods and work in progress		3,046	742	676	(866)
Raw materials and services		(23,113)	(19,131)	(7,197)	(6,794)
Employee benefits expense	*7*	(19,709)	(18,420)	(6,183)	(6,114)
Reversal of impairment / (impairment loss) on trade receivables and contract assets		23	(91)	15	(30)
Depreciation and amortisation		(2,795)	(2,249)	(928)	(743)
Other operating expenses	*8*	(14,217)	(13,647)	(4,486)	(3,726)
Operating profit		**4,792**	**4,088**	**2,034**	**3,030**
Finance income	*9*	370	291	106	135
Finance costs	*10*	(3,435)	(3,296)	(1,158)	(1,119)
Net finance costs		**(3,065)**	**(3,005)**	**(1,052)**	**(984)**
Profit before income tax		**1,727**	**1,083**	**982**	**2,046**
Income tax expense	*11*	(1,091)	(1,037)	(492)	(565)
Profit for the period attributable to the owners of the Parent Company		**636**	**46**	**490**	**1,481**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss					
Foreign operations – foreign currency translation differences		29	(237)	(150)	87
Other comprehensive income, net of tax		**29**	**(237)**	**(150)**	**87**
Total comprehensive income		**665**	**(191)**	**340**	**1,568**

Condensed consolidated statement of financial position

In thousands of EUR	*Note*	30 September 2019	31 December 2018
Assets			
Property, plant and equipment	*12*	11,273	11,845
Intangible assets		14,754	15,207
Right-of-use assets		4,023	-
Deferred tax assets		1,615	2,307
Other receivables	*14*	347	388
Total non-current assets		**32,012**	**29,747**
Inventories	*13*	21,302	19,006
Current tax assets		247	384
Trade and other receivables	*14*	14,967	14,032
Contract assets		112	26
Prepayments		755	939
Cash and cash equivalents		1,855	1,335
Total current assets		**39,238**	**35,722**
Total assets		**71,250**	**65,469**
Equity			
Share capital	*15*	60	60
Reserves	*15*	(303)	(332)
Retained earnings		5,107	5,086
Total equity		**4,864**	**4,814**
Liabilities			
Loans and borrowings	*16*	41,557	38,767
Net employee defined benefit liability		3,720	3,808
Deferred income		392	570
Provisions		224	213
Other payables	*17*	98	-
Deferred tax liabilities		3,529	3,663
Total non-current liabilities		**49,520**	**47,021**
Loans and borrowings	*16*	5,017	2,326
Trade and other payables	*17*	11,140	10,519
Contract liabilities		103	292
Current tax liabilities		246	170
Provisions		147	111
Deferred income		213	216
Total current liabilities		**16,866**	**13,634**
Total liabilities		**66,386**	**60,655**
Total equity and liabilities		**71,250**	**65,469**

Condensed consolidated statement of changes in equity

For the nine months ended 30 September 2019

In thousands of EUR	Share capital	Translation reserve	Retained earnings	Total equity
	Attributable to owners of the Parent Company			
Balance at 31 December 2018	**60**	**(332)**	**5,086**	**4,814**
Total comprehensive income				
Profit for the period	-	-	636	636
Other comprehensive income	-	29	-	29
Total comprehensive income	**-**	**29**	**636**	**665**
Transactions with owners of the Group				
Contributions and distributions				
Equity-settled share-based payment	-	-	(615)	(615)
Total contributions and distributions	**-**	**-**	**(615)**	**(615)**
Total transactions with owners of the Group	**-**	**-**	**(615)**	**(615)**
Balance at 30 September 2019	**60**	**(303)**	**5,107**	**4,864**

For the nine months ended 30 September 2018

In thousands of EUR	Share capital	Translation reserve	Retained earnings	Total equity
	Attributable to owners of the Parent Company			
Balance at 31 December 2017	**60**	**-**	**-**	**60**
Total comprehensive income				
Profit for the period	-	-	46	46
Other comprehensive income	-	(237)	-	(237)
Total comprehensive income	**-**	**(237)**	**46**	**(191)**
Transactions with owners of the Group				
Contributions and distributions				
Acquisition of subsidiary under common control	-	-	6,806	6,806
Equity-settled share-based payment	-	-	376	376
Total contributions and distributions	**-**	**-**	**7,182**	**7,182**
Total transactions with owners of the Group	**-**	**-**	**7,182**	**7,182**
Balance at 30 September 2018	**60**	**(237)**	**7,228**	**7,051**

Condensed consolidated statement of cash flows

For the nine months and third quarter ended 30 September

In thousands of EUR	*Note*	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Cash flows from operating activities					
Profit for the reporting period		636	46	490	1,481
Adjustments for:					
Depreciation		2,234	1,789	741	565
Amortization		561	460	187	178
(Reversal of impairment) / impairment loss		(23)	91	(15)	30
Income from government grants		(182)	(230)	(60)	(71)
Finance income	*9*	(48)	(40)	(15)	(135)
Finance costs	*10*	3,154	2,942	1,062	978
Foreign exchange gains	*9*	(322)	(251)	(91)	-
Foreign exchange losses	*10*	281	354	96	141
Net loss on sale of property, plant and equipment		68	18	(22)	18
Gain on disposal of subsidiary	*20*	(217)	-	-	-
Equity-settled share-based payment transactions		(615)	376	(667)	125
Gain on bargain purchase	*19*	(22)	-	-	-
Income tax expense	*11*	1,091	1,037	492	565
Changes in:					
Inventories		(2,294)	(1,609)	(175)	(302)
Trade and other receivables		(630)	(1,851)	1,292	(1,209)
Contract assets		(86)	-	6	-
Prepayments		184	(19)	(92)	(81)
Trade and other payables		988	762	(1,872)	760
Contract liabilities		(189)	-	(54)	-
Provisions		47	(25)	114	(72)
Net employee defined benefit liability		(140)	(136)	(46)	(39)
Cash generated from operating activities		**4,476**	**3,714**	**1,371**	**2,932**
Interest paid		(2,658)	(2,140)	(895)	(828)
Income taxes paid		(330)	(1,115)	(4)	(384)
Net cash from operating activities		**1,488**	**459**	**472**	**1,720**

Condensed consolidated statement of cash flows (continued)

For the nine months and third quarter ended 30 September

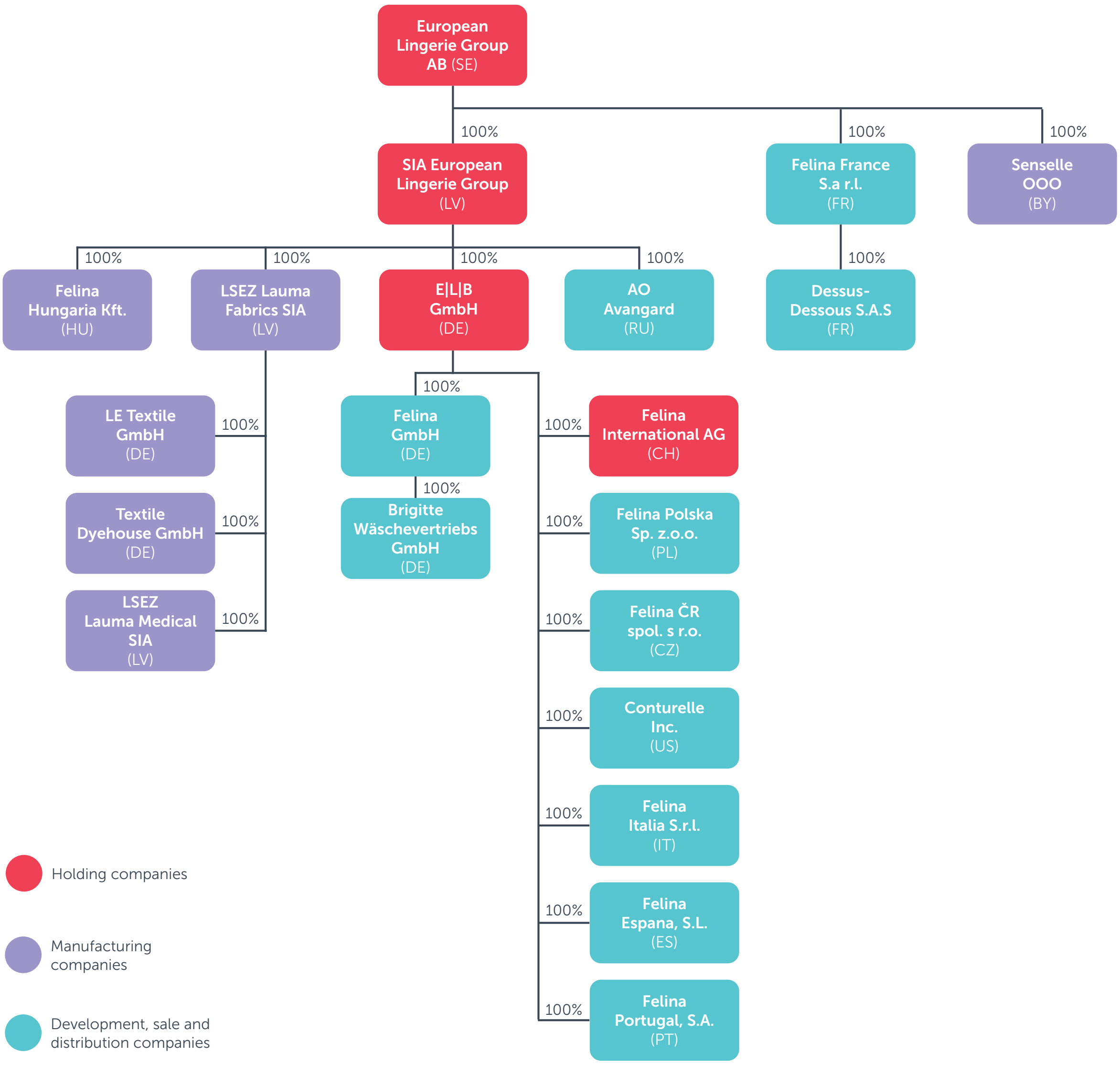
In thousands of EUR	*Note*	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Cash flows from investing activities					
Interest received		89	12	79	9
Proceeds from sale of property, plant and equipment		51	-	44	-
Proceeds from repayment of loans issued		-	70	-	-
Cash disposed on disposal of subsidiary		(2)	-	-	-
Acquisition of subsidiary net of cash acquired		(217)	(7,369)	(226)	(850)
Cash acquired in common control transactions		-	1,874	-	-
Acquisition of property, plant and equipment and intangible assets		(2,549)	(1,059)	(1,149)	(803)
Deposits placed in restricted accounts		-	(5)	-	-
Deposits released from restricted accounts		-	4,500	-	-
Loans issued to shareholders in lieu of future dividends		-	(77)	-	-
Net cash used in investing activities		**(2,628)**	**(2,054)**	**(1,252)**	**(1,644)**
Cash flows from financing activities					
Proceeds from issue of share capital		-	60	-	-
Proceeds from bonds issue		-	40,000	-	-
Change in bank overdraft		1,840	(1,232)	294	(1,076)
Transaction costs related to bonds issue		-	(1,730)	-	-
Repayment of loans and borrowings		-	(20,021)	-	-
Repayment of convertible notes		-	(12,375)	-	-
Payment of finance lease liabilities		(739)	(85)	(252)	(27)
Proceeds from sale and leaseback transaction	12	595	-	595	-
Payment of dividends		-	(269)	-	-
(Repayment)/receipt of factoring		(167)	(517)	(109)	203
Net cash from/(used in) financing activities		**1,529**	**3,831**	**528**	**(900)**
Net increase / (decrease) in cash and cash equivalents		**389**	**2,236**	**(252)**	**(824)**
Cash and cash equivalents at 1 January / 1 July		1,335	-	2,185	2,972
Effect of movement in exchange rates on cash held		131	(134)	(78)	(46)
Cash and cash equivalents at 30 September		**1,855**	**2,102**	**1,855**	**2,102**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Reporting entity

European Lingerie Group AB is a company domiciled in Sweden. These condensed consolidated interim financial statements ("interim financial statements") as at and for the nine months ended 30 September 2019 comprise the Parent company and its subsidiaries (together referred to as "the Group"). The Group is primarily involved in manufacturing, processing, wholesale and retail of textiles and lingerie products.

At 30 September 2019, the Group structure was as follows:



The list of Parent's subsidiaries included in the consolidated financial statements was as follows:

Subsidiary	Place of incorporation and operations	Proportion of ownership interest at 30 September 2019	Principal activity
SIA European Lingerie Group	Latvia	100%	Holding Company
LSEZ Lauma Fabrics SIA	Latvia	100%	Production and wholesale
LE Textile GmbH	Germany	100%	Knitting and design development
Textile Dyehouse GmbH	Germany	100%	Dyeing and finishing services
E|L|B GmbH	Germany	100%	Holding Company
Felina International AG	Switzerland	100%	Holding Company
Felina Italia S.r.l.	Italy	100%	Wholesale
Felina France S.a r.l.	France	100%	Wholesale
Felina GmbH	Germany	100%	Production and wholesale
Brigitte Wäschevertriebs GmbH	Germany	100%	Retail
Felina Espana S.L.	Spain	100%	Wholesale
Felina Hungaria Kft.	Hungary	100%	Production
Felina Polska Sp. z o.o.	Poland	100%	Retail and wholesale
Felina ČR spol. s.r.o.	Czech Republic	100%	Wholesale
Felina Portugal S.A.	Portugal	100%	Wholesale
Conturelle Inc.	USA	100%	Wholesale
AO Avangard	Russia	100%	Wholesale
Dessus-Dessous S.A.S	France	100%	Online retail
Senselle OOO	Belarus	100%	Production
LSEZ Lauma Medical SIA	Latvia	100%	Production and wholesale

Senselle OOO

On 2 January 2019 European Lingerie Group AB acquired Senselle OOO, which was consolidated into the Group starting from 1 January 2019. For more information on acquisition of the subsidiary see Note 19.

Brafetch GmbH

Brafetch GmbH was established by European Lingerie Group AB on 29 January 2019 and was consolidated into the Group starting from that date. The Company is involved in the implementation of the omni-channel strategy of the Group. On 14 June 2019, European Lingerie Group AB sold Brafetch GmbH, a wholly owned subsidiary. For more information see Note 20.

SIA SistersOf Production

SIA SistersOf Production was established by Brafetch GmbH on 26 March 2019 and was consolidated into the Group starting from that date. The Company is involved in photo and video content production for the Group companies and third parties. On 14 June 2019, SIA SistersOf Production was disposed by the European Lingerie Group AB as a result of Brafetch GmbH sale.

LSEZ Lauma Medical SIA

LSEZ Lauma Medical SIA was established by LSEZ Lauma Fabrics SIA on 30 May 2019 and was consolidated into the Group starting from that date. The Company will be involved in production and wholesale of medical textiles under Lauma Medical brand name.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 Interim financial reporting and should be read in conjunction with the Group's last annual financial statements as at and for the period ended 31 December 2018 ('last annual financial statements'). The accounting and measurement policies, as well as the assessment bases, applied in the last annual financial statements have also been applied in these interim financial statements. The interim financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of the Group's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 3.

These interim financial statements were authorised for issue by the Company's Board of Directors on 2 December 2019.

The interim financial statements are presented in euro, which is the Parent's functional and reporting currency. All financial information has been drawn up in thousands of euros and all the figures have been rounded to the nearest thousand, unless indicated otherwise.

Exchange rates used for the conversion of subsidiary financial information were as follows:

	30 September 2019	Average for 9 months 2019	Average for Q3 2019
1 EUR/CHF	1.0847	1.1179	1.0960
1 EUR/PLN	4.3782	4.3011	4.3184
1 EUR/HUF	334.8300	323.0700	328.1000
1 EUR/CZK	25.8160	25.7020	25.7340
1 EUR/USD	1.0889	1.1236	1.1119
1 EUR/RUB	70.7557	73.0853	71.8369
1 EUR/BYN	2.2651	2.3578	2.2867

	31 December 2018	Average for 9 months 2018	Average for Q3 2018
1 EUR/CHF	1.1269	1.1611	1.1445
1 EUR/PLN	4.3014	4.2488	4.3032
1 EUR/HUF	320.9800	317.5100	324.1100
1 EUR/CZK	25.7240	25.5740	25.1780
1 EUR/USD	1.1450	1.1942	1.1629
1 EUR/RUB	79.7153	73.4164	76.2394
1 EUR/BYN	2.4734	2.3985	2.3799

3. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's financial statements as at and for the year ending 31 December 2019.

The Group has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application (if any) is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to reassess whether all existing contracts contain a lease as defined under IFRS 16 at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessee

The Group leases many assets, including properties, machinery, equipment and other assets.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The carrying amounts of right-of-use assets recognised by the Group are as follows:

in thousands of EUR	Land and buildings	Machinery and equipment	Other assets	TOTAL
Cost				
Previously accounted under IAS 17 as finance leases and reclassified from property, plant and equipment	-	83	76	159
Recognised under initial adoption of IFRS 16	3 388	67	386	3 841
Balance at 1 January 2019	**3 388**	**150**	**462**	**4 000**
Acquired in a business combination	53	-	-	53
Acquired under lease agreement	-	1 200	-	1 200
Remeasurement	(231)	-	-	(231)
Disposals	(112)	-	(8)	(120)
Effect of movements in exchange rates	(13)	-	(3)	(16)
Balance at 30 September 2019	**3 085**	**1 350**	**451**	**4 886**
Accumulated depreciation				
Previously accounted under IAS 17 as finance leases and reclassified from property, plant and equipment	-	18	25	43
Recognised under initial adoption of IFRS 16	-	-	-	-
Balance at 1 January 2019	**-**	**18**	**25**	**43**
Depreciation for the period	687	46	97	830
Disposals	(6)	-	(1)	(7)
Effect of movements in exchange rates	(3)	-	-	(3)
Balance at 30 September 2019	**678**	**64**	**121**	**863**
Carrying amounts				
At 1 January 2019	3 388	132	437	3 957
At 30 September 2019	**2 407**	**1 286**	**330**	**4 023**

The Group presents lease liabilities in ‘loans and borrowings’ in the statement of financial position.

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

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

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Transition

Previously, the Group classified property leases as operating leases under IAS 17. These include office, shops and factory premises. These leases typically run for a period of up to 5 years, with some leases of up to 10 years. Some leases include an option to renew the lease for an additional period after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

Previously, the Group classified leases of some items of machinery and other assets as operating leases under IAS 17. These include cars, office equipment and some machines. These leases typically run for a period of up to 5 years.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to lease liability.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases which were classified as finance leases under IAS 17 the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

As a lessor

The Group leases out some premises and classifies these leases as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities (excluding leases already classified as finance leases under IAS 17 on transition date) in the amount of EUR 3,841 thousand.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The rates applied in the lingerie segment are 7.6% and 9.2%; rate applied in the textiles segment is 8.8%.

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised EUR 3,841 thousand of right-of-use assets and lease liabilities (textiles segment: EUR 277 thousand; lingerie segment: EUR 3,564 thousand) as at 30 September 2019.

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expenses. During the nine months 2019 ended 30 September 2019, the Group derecognised rent expenses in the amount of EUR 925 thousand (textiles segment: EUR 146 thousand, lingerie segment: EUR 779 thousand), the Group recognised EUR 807 thousand of depreciation charges (textiles segment: EUR 137 thousand; lingerie segment: EUR 670 thousand) and EUR 208 thousand of interest costs (textiles segment: EUR 14 thousand; lingerie segment: EUR 194 thousand) from these leases.

4. Segment information

The Group has the following two strategic divisions, which are its reportable segments. These divisions offer different products and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment.

Reportable segments	Operations
Textiles	Manufacturing, processing and wholesale of textiles
Lingerie	Manufacturing, processing, wholesale and retail (including online) of lingerie products

Two divisions are integrated through the sale of textiles to lingerie segment for the production of lingerie products. Inter-segment pricing is determined on an arm's length basis.

Primary monitored measures include segment revenues, segment EBITDA (which is defined as profit before depreciation, amortisation, finance income/costs and income tax expense) and segment net profit. These measures are included in internal management reports.

Information related to each reportable segment is set out below. Unallocated items refer to the activities of holding companies (European Lingerie Group AB, SIA European Lingerie Group and E|L|B GmbH).

9 months 2019

In thousands of EUR	Textiles	Lingerie	Total segments	Unallocated	Consolidation adjustments	Total
External revenues	24,216	34,651	58,867	-	-	58,867
Intersegment revenue	901	-	901	-	(901)	-
Total revenue	**25,117**	**34,651**	**59,768**	**-**	**(901)**	**58,867**
Other operating income	732	1,064	1,796	1,946	(1,052)	2,690
Changes in inventories of finished goods and work in progress	1,029	2,017	3,046	-	-	3,046
Raw materials and services	(11,304)	(12,797)	(24,101)	-	988	(23,113)
Employee benefits expense	(6,775)	(12,597)	(19,372)	(337)	-	(19,709)
Depreciation and amortisation	(1,178)	(1,616)	(2,794)	(1)	-	(2,795)
Reversal of impairment/ (impairment loss) on trade receivables and contract assets	146	(123)	23	-	-	23
Other operating expenses	(4,798)	(9,101)	(13,899)	(622)	304	(14,217)
Operating profit	**2,969**	**1,498**	**4,467**	**986**	**(661)**	**4,792**
Interest income	34	212	246	323	(521)	48
Other finance income	155	158	313	9	-	322
Interest expense	(141)	(296)	(437)	(2,951)	509	(2,879)
Other finance costs	(132)	(421)	(553)	(3)	-	(556)
Income tax	(127)	(936)	(1,063)	(28)	-	(1,091)
Net profit / (loss)	**2,758**	**215**	**2,973**	**(1,664)**	**(673)**	**636**
Operating profit	2,969	1,498	4,467	986	(661)	4,792
Depreciation and amortisation	1,178	1,616	2,794	1	-	2,795
EBITDA	**4,147**	**3,114**	**7,261**	**987**	**(661)**	**7,587**
Segment assets	26,655	44,075	70,730	520	-	71,250
Segment liabilities	8,044	18,677	26,721	39,665	-	66,386
Capital expenditure	2,195	352	2,547	2	-	2,549
Number of employees at reporting date	509	789	1,298	7	-	1,305

Q3 2019

In thousands of EUR	Textiles	Lingerie	Total segments	Unallocated	Consolida-tion adjust-ments	Total
External revenues	6,892	11,990	18,882	-	-	18,882
Intersegment revenue	322	-	322	-	(322)	-
Total revenue	**7,214**	**11,990**	**19,204**	**-**	**(322)**	**18,882**
Other operating income	211	355	566	832	(143)	1,255
Changes in inventories of finished goods and work in progress	412	264	676	-	-	676
Raw materials and services	(3,272)	(4,322)	(7,594)	-	397	(7,197)
Employee benefits expense	(2,099)	(3,962)	(6,061)	(122)	-	(6,183)
Depreciation and amortisation	(377)	(550)	(927)	(1)	-	(928)
Reversal of impairment on trade receivables and contract assets	97	(82)	15	-	-	15
Other operating expenses	(1,406)	(2,977)	(4,383)	(153)	50	(4,486)
Operating profit	**780**	**716**	**1,496**	**556**	**(18)**	**2,034**
Interest income	11	65	76	111	(172)	15
Other finance income	46	42	88	3	-	91
Interest expense	(48)	(102)	(150)	(1,003)	177	(976)
Other finance costs	(55)	(126)	(181)	(1)	-	(182)
Income tax	(56)	(431)	(487)	(5)	-	(492)
Net profit / (loss)	**678**	**164**	**842**	**(339)**	**(13)**	**490**
Operating profit	780	716	1,496	556	(18)	2,034
Depreciation and amortisation	377	550	927	1	-	928
EBITDA	**1,157**	**1,266**	**2,423**	**557**	**(18)**	**2,962**
Segment assets	26,655	44,075	70,730	520	-	71,250
Segment liabilities	8,044	18,677	26,721	39,665	-	66,386
Capital expenditure	1,102	47	1,149	-	-	1,149
Number of employees at reporting date	509	789	1,298	7	-	1,305

9 months 2018

In thousands of EUR	Textiles	Lingerie	Total segments	Unallocated	Consolida-tion adjust-ments	Total
External revenues	24,214	31,185	55,399	-	-	55,399
Intersegment revenue	800	-	800	-	(800)	-
Total revenue	**25,014**	**31,185**	**56,199**	**-**	**(800)**	**55,399**
Other operating income	899	603	1,502	2,582	(2,599)	1,485
Changes in inventories of finished goods and work in progress	351	391	742	-	-	742
Raw materials and services	(10,691)	(9,182)	(19,873)	-	742	(19,131)
Employee benefits expense	(6,527)	(11,506)	(18,033)	(387)	-	(18,420)
Depreciation and amortisation	(1,336)	(912)	(2,248)	(1)	-	(2,249)
Impairment loss on trade receivables and contract assets	(26)	(65)	(91)	-	-	(91)
Other operating expenses	(4,588)	(7,567)	(12,155)	(1,823)	331	(13,647)
Operating profit	**3,096**	**2,947**	**6,043**	**371**	**(2,326)**	**4,088**
Interest income	237	82	319	218	(498)	39
Other finance income	104	145	249	3	-	252
Interest expense	(375)	(151)	(526)	(2,804)	501	(2,829)
Other finance costs	(134)	(332)	(466)	(1)	-	(467)
Income tax	(107)	(930)	(1,037)	-	-	(1,037)
Net profit	**2,821**	**1,761**	**4,582**	**(2,213)**	**(2,323)**	**46**
Operating profit	3,096	2,947	6,043	371	(2,326)	4,088
Depreciation and amortisation	1,336	912	2,248	1	-	2,249
EBITDA	**4,432**	**3,859**	**8,291**	**372**	**(2,326)**	**6,337**
Segment assets	23,053	40,726	63,779	2,727	-	66,506
Segment liabilities	6,964	13,316	20,280	39,175	-	59,455
Capital expenditure	900	198	1,098	3	-	1,101
Number of employees at reporting date	534	725	1,259	7	-	1,266

Q3 2018

In thousands of EUR	Textiles	Lingerie	Total segments	Unallocated	Consolida-tion adjust-ments	Total
External revenues	7,798	13,011	20,809	-	-	20,809
Intersegment revenue	184	-	184	-	(184)	-
Total revenue	**7,982**	**13,011**	**20,993**	**-**	**(184)**	**20,809**
Other operating income	217	287	504	52	(62)	494
Changes in inventories of finished goods and work in progress	(81)	(785)	(866)	-	-	(866)
Raw materials and services	(3,395)	(3,552)	(6,947)	-	153	(6,794)
Employee benefits expense	(2,009)	(3,981)	(5,990)	(124)	-	(6,114)
Depreciation and amortisation	(417)	(326)	(743)	-	-	(743)
Impairment loss on trade receivables and contract assets	-	(30)	(30)	-	-	(30)
Other operating expenses	(1,339)	(2,290)	(3,629)	(303)	206	(3,726)
Operating profit	**958**	**2,334**	**3,292**	**(375)**	**113**	**3,030**
Interest income	14	28	42	116	(146)	12
Other finance income	62	60	122	1	-	123
Interest expense	(55)	(113)	(168)	(953)	163	(958)
Other finance costs	(69)	(91)	(160)	(1)	-	(161)
Income tax	(51)	(514)	(565)	-	-	(565)
Net profit	**859**	**1,704**	**2,563**	**(1,212)**	**130**	**1,481**
Operating profit	958	2,334	3,292	(375)	113	3,030
Depreciation and amortisation	417	326	743	-	-	743
EBITDA	**1,375**	**2,660**	**4,035**	**(375)**	**113**	**3,773**
Segment assets	23,053	40,726	63,779	2,727	-	66,506
Segment liabilities	6,964	13,316	20,280	39,175	-	59,455
Capital expenditure	751	50	801	2	-	803
Number of employees at reporting date	534	725	1,259	7	-	1,266

The assets and liabilities have been presented with eliminations and consolidation adjustments allocated to specific segments.

In presenting the geographic information, segment revenue was based on the geographic location of customers and segment assets were based on the geographic location of the assets.

Revenue

In thousands of EUR	9 months 2019	9 months 2018
Germany	13,191	14,337
Russia	7,773	5,931
Baltic States	6,815	8,034
France	5,032	3,544
Belarus	3,924	3,232
Poland	3,403	3,391
The Netherlands	3,099	3,253
Spain	2,506	2,539
Morocco	1,721	1,544
Italy	1,516	1,202
Belgium, Luxemburg	1,147	1,156
Ukraine	1,061	1,199
Swiss, Liechtenstein	881	847
Austria	767	794
Great Britain	655	438
Sweden	184	126
Other countries	5,192	3,832
Total	**58,867**	**55,399**

In thousands of EUR	Q3 2019	Q3 2018
Germany	4,460	5,180
Russia	2,506	2,359
Baltic States	2,038	2,647
France	1,701	2,127
Belarus	982	1,041
Poland	1,014	1,082
The Netherlands	1,065	1,126
Spain	1,030	1,176
Morocco	373	437
Italy	397	401
Belgium, Luxemburg	387	479
Ukraine	328	269
Swiss, Liechtenstein	347	330
Austria	227	330
Great Britain	181	196
Sweden	61	44
Other countries	1,785	1,585
Total	**18,882**	**20,809**

Non-current non-financial assets

In thousands of EUR	30 September 2019	31 December 2018
Germany	10,335	9,630
Latvia	9,073	8,023
France	6,023	5,415
Hungary	2,620	2,829
Russia	981	980
Poland	923	170
Other countries	95	5
Total	**30,050**	**27,052**

Non-current assets exclude financial instruments and deferred tax assets.

5. Revenue

(i) Revenue streams

The Group generates revenue primarily from the sale of textiles and lingerie products (see Note 4). The Group is also involved in provision of cutting and garment sewing services as well as in provision of fabrics dyeing and finishing services.

In thousands of EUR	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Sales of goods	58,236	54,772	18,663	20,597
Rendering of services	631	627	219	212
Total	**58,867**	**55,399**	**18,882**	**20,809**

(ii) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographic markets. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 4).

	9 months 2019		
In thousands of EUR	Textiles	Lingerie	Total
Germany	2,039	11,152	**13,191**
Russia	3,925	3,848	**7,773**
Baltic States	6,683	132	**6,815**
France	611	4,421	**5,032**
Belarus	3,908	16	**3,924**
Poland	1,509	1,894	**3,403**
The Netherlands	48	3,051	**3,099**
Spain	59	2,447	**2,506**
Morocco	1,721	-	**1,721**
Italy	151	1,365	**1,516**
Belgium, Luxemburg	78	1,069	**1,147**
Ukraine	1,016	45	**1,061**
Swiss, Liechtenstein	-	881	**881**
Austria	302	465	**767**
Great Britain	198	457	**655**
Sweden	74	110	**184**
Other countries	1,894	3,298	**5,192**
External revenue as reported in Note 4	**24,216**	**34,651**	**58,867**

9 months 2018

In thousands of EUR	Textiles	Lingerie	Total
Germany	2,346	11,991	**14,337**
Russia	3,044	2,887	**5,931**
Baltic States	8,026	8	**8,034**
France	928	2,616	**3,544**
Belarus	3,232	-	**3,232**
Poland	1,791	1,600	**3,391**
The Netherlands	121	3,132	**3,253**
Spain	67	2,472	**2,539**
Morocco	1,544	-	**1,544**
Italy	119	1,083	**1,202**
Belgium, Luxemburg	150	1,006	**1,156**
Ukraine	1,176	23	**1,199**
Swiss, Liechtenstein	1	846	**847**
Austria	339	455	**794**
Great Britain	128	310	**438**
Sweden	48	93	**141**
Other countries	1,154	2,663	**3,817**
External revenue as reported in Note 4	**24,214**	**31,185**	**55,399**

Q3 2018

In thousands of EUR	Textiles	Lingerie	Total
Germany	770	4,410	**5,180**
Russia	1,240	1,119	**2,359**
Baltic States	2,647	-	**2,647**
France	204	1,923	**2,127**
Belarus	1,041	-	**1,041**
Poland	469	613	**1,082**
The Netherlands	7	1,119	**1,126**
Spain	22	1,154	**1,176**
Morocco	437	-	**437**
Italy	23	378	**401**
Belgium, Luxemburg	53	426	**479**
Ukraine	253	16	**269**
Swiss, Liechtenstein	1	329	**330**
Austria	145	185	**330**
Great Britain	48	148	**196**
Sweden	16	32	**48**
Other countries	422	1,159	**1,581**
External revenue as reported in Note 4	**7,798**	**13,011**	**20,809**

Q3 2019

In thousands of EUR	Textiles	Lingerie	Total
Germany	608	3,852	**4,460**
Russia	1,180	1,326	**2,506**
Baltic States	2,006	32	**2,038**
France	133	1,568	**1,701**
Belarus	978	4	**982**
Poland	403	611	**1,014**
The Netherlands	4	1,061	**1,065**
Spain	30	1,000	**1,030**
Morocco	373	-	**373**
Italy	53	344	**397**
Belgium, Luxemburg	6	381	**387**
Ukraine	312	16	**328**
Swiss, Liechtenstein	-	347	**347**
Austria	77	150	**227**
Great Britain	44	137	**181**
Sweden	17	44	**61**
Other countries	668	1,117	**1,785**
External revenue as reported in Note 4	**6,892**	**11,990**	**18,882**

6. Other operating income

In thousands of EUR	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Income related to share-based payment arrangements	667	-	667	-
Rental income from property leases	407	472	118	134
Transportation income	333	210	109	100
Profit from subsidiary disposal	217	-	-	-
Government grants	182	230	60	71
Income from sales commissions	103	84	39	18
License income	90	113	30	38
Income from sales of non-core materials	62	38	14	17
Gain on sale of property, plant and equipment	47	-	40	-
Proceeds from bad debts previously written off	19	116	12	-
Other income from non-core activities	563	222	166	116
Total	**2,690**	**1,485**	**1,255**	**494**

In June 2017 Felina International AG (assigned to Felina Group GmbH in September 2018) concluded management and consulting service agreement with Xiberia Capital Investments AB that entitles Xiberia Capital Investments AB to receive shares in SIA European Lingerie Group corresponding to 0.33% of its share capital per each year of services for years one, two and three, and 0.5% for year four, i.e. 1.49% in total.

In Q3 2019 this agreement was mutually terminated by both parties along with any entitlements under it. As a result, the Group recognized income in the amount of EUR 667 thousand as a reversal of previously recognised expenses related to the share-based payment arrangement as it was agreed between the parties that the conditions for the vesting of the share options under the service agreement have not been met and Xiberia Capital Investments AB shall not be entitled to any shares in any Group company on any legal basis, for periods past or current.

7. Employee benefits expense

In thousands of EUR	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Wages and salaries	15,533	14,698	4,877	4,860
Social security contributions	3,493	3,058	1,094	1,032
Expenses related to post-employment defined benefit plans	5	13	1	9
Other employee benefits	678	651	211	213
Total	**19,709**	**18,420**	**6,183**	**6,114**

8. Other operating expenses

In thousands of EUR	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Sales and marketing	3,389	2,712	1,022	1,002
Utilities	2,213	2,262	581	619
Storage, transportation and packaging	1,548	1,162	552	542
Change in write downs to net realizable value for obsolete and slow-moving inventories	1,101	(187)	424	(783)
Professional services	802	1,797	337	205
Repair and maintenance	625	613	197	213
Travel expenses	562	483	151	160
IT and communication	500	329	158	137
Rents	464	1,284	197	445
Bank services	281	281	104	99
Insurance	157	143	42	50
Loss on disposal of property, plant and equipment	115	18	18	18
Car park related costs	91	89	28	34
Expenses related to share-based payment arrangements	52	376	-	125
Real estate tax	37	47	4	22
Other taxes	187	136	63	53
Other operating expenses	2,093	2,102	608	785
Total	**14,217**	**13,647**	**4,486**	**3,726**

9. Finance income

In thousands of EUR	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Interest income under the effective interest method on:				
Trade and other receivables	48	39	15	12
Total interest income arising from financial assets measured at amortised cost	**48**	**39**	**15**	**12**
Net gain from the revaluation of forward exchange contracts	-	-	-	122
Foreign exchange gains	322	251	91	-
Other finance income	-	1	-	1
Finance income – other	**322**	**252**	**91**	**123**
Total	**370**	**291**	**106**	**135**

10. Finance costs

In thousands of EUR	9 months 2019	9 months 2018
Interest expense on financial liabilities measured at amortised cost	3,087	2,829
Foreign exchange losses	281	354
Interest expense on net employee defined benefit liability	52	52
Fines and penalties	15	3
Net change in fair value of financial assets at fair value through profit and loss	-	57
Other finance costs	-	1
Total	**3,435**	**3,296**

In thousands of EUR	Q3 2019	Q3 2018
Interest expense on financial liabilities measured at amortised cost	1,040	958
Foreign exchange losses	96	141
Interest expense on net employee defined benefit liability	17	18
Fines and penalties	5	1
Other finance costs	-	1
Total	**1,158**	**1,119**

EUR 3,087 thousand of interest expense in 9 months 2019 (Q3 2019: EUR 1,040 thousand) consist of EUR 2,658 thousand (Q3 2019: EUR 895 thousand) of interest expense on loans and borrowings, EUR 419 thousand (Q3 2019: EUR 144 thousand) of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value and EUR 10 thousand (Q3 2019: EUR 1 thousand) of interest expense on trade and other payables.

EUR 2,829 thousand of interest expense in 9 months 2018 (Q3 2018: EUR 958 thousand) consist of EUR 2,408 thousand (Q3 2018: EUR 827 thousand) of interest expense on loans and borrowings; EUR 309 thousand (Q3 2018: EUR 131 thousand) of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value; EUR 112 thousand (Q3 2018: none) of interest expense related to the amortisation of convertible notes to nominal value after revision of estimated cash flows due to early repayment.

11. Income tax expense

The income tax rate applied to the Parent in 2019 was 21.4% (22.0% in 2018).

The major components of income tax expense for the period ended 30 September are:

In thousands of EUR	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Current tax expense				
Current period	527	520	149	311
Deferred tax expense				
Origination and reversal of temporary differences	564	517	343	254
Income tax expense reported in profit or loss	**1,091**	**1,037**	**492**	**565**

12. Property, plant and equipment

During the nine months and the third quarter ended 30 September 2019, the Group acquired assets with a cost of EUR 2,363 thousand and EUR 1,117 thousand respectively, excluding property, plant and equipment acquired through a business combination (see Note 19).

During the nine months and the third quarter ended 30 September 2019 assets with a net book value of EUR 116 thousand and EUR 19 thousand respectively were disposed by the Group (9 months 2018 and Q3 2018: assets with zero net book value), resulting in a net loss on disposal of EUR 68 thousand (9 months 2018 and Q3 2018: EUR 18 thousand). Additionally, in Q3 2019 LSEZ Lauma Fabrics SIA entered into a sale and leaseback transaction with Citadele Lizings un faktorings SIA for the new stenter equipment which was acquired during 9 months 2019 for EUR 1,200 thousand. The proceeds due from the sale were EUR 1,200 thousand. The equipment was then leased back for EUR 1,200 thousand. The first instalment due under the lease-back agreement was EUR 605 thousand. This instalment was offset against the proceeds due from the sale of the stenter, resulting in net cash proceeds from sale and lease-back transaction for the Group of EUR 595 thousand. Subsequently, the asset was recognised as the right-of-use asset in the amount of EUR 1,200 thousand.

13. Inventories

In thousands of EUR	30 September 2019	31 December 2018
Finished goods	12,624	10,505
Raw materials and consumables	6,298	6,530
Work in progress	2,276	1,878
Goods in transit	21	-
Right to recover returned goods	83	93
Total	**21,302**	**19,006**

14. Trade and other receivables

In thousands of EUR	30 September 2019	31 December 2018
Financial trade and other receivables		
Trade receivables	14,998	14,390
Loans to related parties (Note 18)	807	848
Trade receivables due from related parties (Note 18)	625	669
Other receivables due from related parties (Note 18)	406	-
Other receivables	250	386
Allowance for trade and other receivables	(1,033)	(1,055)
Allowance for trade and other receivables due from related parties (Note 18)	(617)	(645)
Allowance for loans to related parties (Note 18)	(460)	(460)
	14,976	**14,133**
Non-financial trade and other receivables		
VAT receivable	230	202
Social contributions receivable	20	2
Other taxes receivable	38	17
Deferred expenses	50	66
	338	**287**
Total	**15,314**	**14,420**
Non-current	347	388
Current	14,967	14,032
Total	**15,314**	**14,420**

Trade receivables at 30 September 2019 in the gross amount of EUR 14,998 thousand mostly comprise receivables for goods sold.

The Group sold with recourse trade receivables to a factoring company with cash proceeds. These trade receivables were not derecognised from the statement of financial position, because the Group retains substantially all of the risks and rewards – primarily credit risk. The amount received on transfer was recognised as secured other loans (see Note 16).

The following information shows the carrying amount of trade receivables that have been transferred but have not been derecognised and the associated liabilities.

In thousands of EUR	30 September 2019	31 December 2018
Carrying amount of trade receivables transferred to a factoring company	832	1,011
Carrying amount of associated liabilities	624	770

15. Capital and reserves

Share capital

Number of shares	2019
In issue at 1 January	60,000
Issued for cash	-
In issue at 30 September – fully paid	**60,000**
Nominal value of one share, EUR	1

The Parent Company has one series of shares. All shares have equal rights to dividends and the Parent Company's residual assets.

Nature and purpose of reserves

Reserves include translation reserve in the amount of EUR -303 thousand which comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

16. Loans and borrowings

In thousands of EUR	30 September 2019	31 December 2018
Non-current liabilities		
Bonds	39,132	38,713
Lease liabilities	2,374	54
Long-term unsecured bank loans	51	-
Total	**41,557**	**38,767**
Current liabilities		
Short-term secured bank loans	2,912	1,147
Short-term unsecured bank loans	57	33
Secured other loans	624	770
Bonds	336	336
Current portion of lease liabilities	1,088	40
Total	**5,017**	**2,326**

Lease liabilities increased compared to 31 December 2018 as a result of adoption of IFRS 16 by the

Group on 1 January 2019. EUR 2,820 thousand out of total amount of lease liabilities outstanding at 30 September 2019 refer to new leases recognised under IFRS 16. Secured other loans represent amounts received from factoring companies, see Note 14. In Q3 2019 the Group entered into sale and lease-back transaction resulting in lease liability of EUR 577 thousand at 30 September 2019 (see Note 12 for more details).

17. Trade and other payables

In thousands of EUR	30 September 2019	31 December 2018
Financial trade and other payables		
Trade payables	6,595	5,671
Accrued expenses	1,955	2,184
Other payables to related parties (Note 18)	27	12
Payables to personnel	810	735
Other payables	434	811
	7,014	**9,413**
Non-financial trade and other payables		
Refund liabilities	321	186
VAT payable	352	140
Personal income tax payable	273	259
Social contributions payable	426	475
Other taxes payable	45	46
	1,096	**1,106**
Total	**11,238**	**10,519**
Non-current	98	-
Current	11,140	10,519
Total	**11,238**	**10,519**

Other current payables include payable for acquisition of AO Avangard in the amount of EUR 10 thousand and deferred payment payable for acquisition of Dessus-Dessous S.A.S. in the amount of EUR 76 thousand.

18. Related parties

Transactions with key management personnel

Key management personnel compensation for the 9 months and third quarter ended 30 September 2019 amounted to EUR 621 thousand and EUR 208 thousand respectively (9 months and Q3 2018: EUR 697 thousand and EUR 231 thousand respectively) and comprised only short-term employee benefits in the form of salaries and social contributions.

Other related party transactions

In thousands of EUR	Transaction values for 9 months 2019	Transaction values for 9 months 2018	Transaction values for Q3 2019	Transaction values for Q3 2018	Balance outstanding at 30 September 2019	Balance outstanding at 31 December 2018
Sales of goods and services						
Joint ventures	33	35	9	8	-	-
Other related parties	1	89	-	-	-	-
Purchases of goods and services						
Shareholders	9	30	8	10	-	-
Other related parties	273	1,840	45	186	-	-
Gain on disposal of subsidiary						
Shareholders	217	-	-	-	-	-
Interest income accrued during the year						
Joint ventures	31	32	10	11	-	-
Shareholders	3	4	1	1	-	-
Other related parties	1	-	1	-	-	-
Loans granted	-		-			
Shareholders	-	77	-	-	-	-
Trade and other receivables						
Joint ventures	-	-	-	-	4	52
Other related parties	-	-	-	-	1,027	617
Allowance for trade and other receivables						
Joint ventures	-	-	-	-	-	(28)
Other related parties	-	-	-	-	(617)	(617)
Other payables						
Shareholders	-	-	-	-	-	10
Other related parties	-	-	-	-	27	2
Loans receivable, gross amount						
Joint ventures	-	-	-	-	607	607
Shareholders	-	-	-	-	134	134
Allowance for loans receivable						
Joint ventures	-	-	-	-	(460)	(460)
Interest receivable						
Joint ventures	-	-	-	-	55	99
Shareholders	-	-	-	-	11	8

All outstanding balances with the related parties are priced on an arm's length basis and are to be settled in cash within twelve months of the reporting date except as indicated below. None of the balances is secured.

19. Acquisition of subsidiary

Senselle OOO

In January 2019, the Group acquired Yustina OOO (later renamed to Senselle OOO), a lingerie ready garment producer in Belarus. The acquisition is part of European Lingerie Group strategy to expand its operations and add capacity for private label and Senselle by Felina brand production. The acquisition was financed by the Group's own resources.

Cash consideration transferred for the Company was EUR 19 thousand.

The Group incurred acquisition related costs of EUR 10 thousand on legal fees and due diligence costs. These costs have been included in other operating expenses.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

In thousands of EUR	
Property, plant and equipment	4
Right of use asset	53
Inventories	2
Trade and other receivables	25
Cash and cash equivalents	28
Loans and borrowings	(53)
Trade and other payables	(18)
Total	**41**

The Group recognised bargain purchase as a result of acquisition as follows:

In thousands of EUR	Note	
Consideration transferred		(19)
Book value of identifiable net assets		41
Income from bargain purchase	*6*	**22**

The Group recognised income on bargain purchase within other operating income.

Dessus-Dessous S.A.S

During 9 months 2019, the Group paid EUR 226 thousand for the acquisition of Dessus-Dessous S.A.S. EUR 76 thousand are remaining payable at 30 September 2019.

20. Disposal of subsidiary

In January 2019 European Lingerie Group AB established a new subsidiary Brafetch GmbH which is involved in the implementation of the omni-channel strategy of the Group. In March 2019, Brafetch GmbH established its subsidiary SistersOf Production SIA.

On 14 June 2019, European Lingerie Group AB sold Brafetch GmbH to its shareholder – Helike Holdings OU.

Effect of Brafetch GmbH disposal on the financial statements of the Group was as follows:

In thousands of EUR	Note	
Intangible assets		(76)
Current tax assets		(54)
Cash and cash equivalents		(2)
Current tax liabilities		47
Short-term other payables		277
Net assets and liabilities disposed		**192**
Consideration received		25
Gain on disposal	*6*	**217**

The Group recognised gain on disposal of subsidiary within other operating income.

Short-term other payables disposed comprised other payables to European Lingerie Group AB in the amount of EUR 270 thousand.

During 5 months 2019, Brafetch GmbH reported net loss in the amount of EUR 44 thousand excluding the effect of intragroup transactions.

The Group did not have any tax expenses as a result of Brafetch GmH disposal.

PARENT COMPANY FINANCIAL INFORMATION

General information

The Parent of the Group is European Lingerie Group AB (previously Goldcup 15769 AB). The name of the Parent was changed on 29 January 2018.

Type of operations

The Company carries out holding operations through investing in and managing assets involved in manufacturing, processing, wholesale and retail of textiles and lingerie products. The assets of the Parent Company consist of shares in SIA European Lingerie Group, Felina France S.a.r.l, and Senselle OOO as of 30 September 2019. Net loss of European Lingerie Group AB for the nine months and the third quarter ended 30 September 2019 totalled EUR 1,269 thousand and EUR 465 thousand respectively (9 months 2018: loss of EUR 1,840 thousand, Q3 2018: loss of EUR 395 thousand).

Accounting Principles

The interim financial statements of the Parent Company are prepared in accordance with accounting principles generally accepted in Sweden, applying RFR 2 issued by the Swedish Financial Reporting Board and the Annual Accounts Act (1995: 1554). RFR 2 requires the Parent Company to use similar accounting principles as for the Group, i.e. IFRS to the extent allowed by RFR 2. The Parent Company's accounting principles do not in any material respect deviate from the Group accounting principles described in Note 3.

Condensed Parent Company statement of profit or loss and other comprehensive income

For the nine months and third quarter ended 30 September

In thousands of EUR	Note	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Other operating income		189	19	29	19
Employee benefits expense	*21*	(98)	(82)	(37)	(32)
Other operating expenses		(398)	(1,046)	(115)	(102)
Operating loss		**(307)**	**(1,109)**	**(123)**	**(115)**
Finance income	*22*	1,818	1,474	601	644
Finance costs	*23*	(2,780)	(2,205)	(943)	(924)
Net finance costs		**(962)**	**(731)**	**(342)**	**(280)**
Loss before income tax		**(1,269)**	**(1,840)**	**(465)**	**(395)**
Income tax expense		-	-	-	-
Loss for the period		**(1,269)**	**(1,840)**	**(465)**	**(395)**
Total comprehensive income		**(1,269)**	**(1,840)**	**(465)**	**(395)**

Condensed Parent Company statement of financial position

In thousands of EUR	*Note*	30 September 2019	31 December 2018
Assets			
Shares in subsidiaries		46,328	46,309
Receivables from Group companies	*24*	33,575	33,795
Total non-current assets		**79,903**	**80,104**
Receivables from Group companies	*24*	179	172
Other receivables	*24*	244	23
Prepaid expenses and accrued income		30	127
Cash and cash equivalents		32	40
Total current assets		**485**	**362**
Total assets		**80,388**	**80,466**
Equity			
Restricted equity			
Share capital		60	60
Non-restricted equity			
Shareholder contribution		43,500	43,500
Net income		(3,688)	(2,419)
Total equity		**39,872**	**41,141**
Liabilities			
Loans and borrowings	*25*	39,855	38,713
Total non-current liabilities		**39,855**	**38,713**
Liabilities to Group companies	*26*	165	58
Other liabilities	*26*	152	109
Accrued expenses and deferred income	*26*	344	445
Total current liabilities		**661**	**612**
Total liabilities		**40,516**	**39,325**
Total equity and liabilities		**80,388**	**80,466**

Condensed Parent Company statement of changes in equity

For the nine months ended 30 September 2019

	Restricted equity	Non-restricted equity		
In thousands of EUR	Share capital	Shareholder contribution	Net income	Total equity
Balance at 31 December 2018	**60**	**43,500**	**(2,419)**	**41,141**
Total comprehensive income				
Loss for the period	-	-	(1,269)	(1,269)
Total comprehensive income	**-**	**-**	**(1,269)**	**(1,269)**
Balance at 30 September 2019	**60**	**43,500**	**(3,688)**	**39,872**

For the nine months ended 30 September 2018

	Restricted equity	Non-restricted equity		
In thousands of EUR	Share capital	Shareholder contribution	Net income	Total equity
Balance at 31 December 2017	**60**	**-**	**-**	**60**
Total comprehensive income				
Loss for the period	-	-	(1,840)	(1,840)
Total comprehensive income	**-**	**-**	**(1,840)**	**(1,840)**
Transactions with owners of the Company				
Contributions and distributions				
Shareholder contribution received	-	43,500	-	43,500
Total contributions and distributions	**-**	**43,500**	**-**	**43,500**
Total transactions with owners of the Company	**-**	**43,500**	**-**	**43,500**
Balance at 30 September 2018	**60**	**43,500**	**(1,840)**	**41,720**

Condensed Parent Company statement of cash flows

For the nine months and third quarter ended 30 September

In thousands of EUR	*Note*	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Cash flows from operating activities					
Loss for the reporting period		(1,269)	(1,840)	(465)	(395)
Adjustments for:					
Finance income	*22*	(1,816)	(1,474)	(601)	(644)
Finance costs	*23*	2,778	2,204	943	924
Foreign exchange gains	*22*	(2)	-	-	-
Foreign exchange losses	*23*	2	1	-	-
Changes in:					
Other receivables		(164)	(525)	(1)	(520)
Prepaid expenses and accrued income		100	-	(1)	-
Other liabilities		40	124	(6)	17
Cash used in operating activities		**(331)**	**(1,510)**	**(131)**	**(618)**
Interest paid		(2,351)	(1,559)	(792)	(793)
Net cash used in operating activities		**(2,682)**	**(3,069)**	**(923)**	**(1,411)**
Cash flows from investing activities					
Interest received		120	-	1	-
Acquisition of subsidiary		(44)	(2,809)	-	-
Deposits placed in restricted accounts		-	(5)	-	-
Loans issued		(396)	(37,872)	(23)	-
Proceeds from repayment of loans issued		2,272	5,430	678	1,041
Net cash from/(used in) investing activities		**1,952**	**(35,256)**	**656**	**1,041**
Cash flows from financing activities					
Proceeds from issue of share capital		-	60	-	-
Proceeds from bonds issue		-	40,000	-	-
Transaction costs related to bonds issue		-	(1,730)	-	-
Proceeds from loans and borrowings		722	-	297	-
Net cash from financing activities		**722**	**38,330**	**297**	**-**
Net (decrease) / increase in cash and cash equivalents		**(8)**	**5**	**30**	**(370)**
Cash and cash equivalents at 1 January / 1 July		40	-	2	375
Cash and cash equivalents at 30 September		**32**	**5**	**32**	**5**

NOTES TO THE CONDENSED PARENT COMPANY INTERIM FINANCIAL STATEMENTS

21. Employee benefits expense

In thousands of EUR	9 months 2019	9 months 2018	Q3 2019	Q3 2018
Wages and salaries	80	67	30	29
Social security contributions	18	15	7	3
Total	**98**	**82**	**37**	**32**

As of 30 September 2019, the Parent Company employed 3 people, all of whom are members of the Board of Directors. For details on Board remuneration and related social security costs in the reporting period refer to Note 27.

22. Finance income

In thousands of EUR	9 months 2019	9 months 2018
Interest income under the effective interest method on:		
Receivables from Group companies	1,816	1,474
Total interest income arising from financial assets measured at amortised cost	**1,816**	**1,474**
Foreign exchange gains	2	-
Finance income – other	**-**	**-**
Total	**1,818**	**1,474**

In thousands of EUR	Q3 2019	Q3 2018
Interest income under the effective interest method on:		
Receivables from Group companies	601	644
Total interest income arising from financial assets measured at amortised cost	**601**	**644**
Foreign exchange gains	-	-
Finance income – other	**-**	**-**
Total	**601**	**644**

23. Finance costs

In thousands of EUR	9 months 2019	9 months 2018
Interest expense on financial liabilities measured at amortised cost	2,778	2,204
Foreign exchange losses	2	1
Total	**2,780**	**2,205**

In thousands of EUR	Q3 2019	Q3 2018
Interest expense on financial liabilities measured at amortised cost	943	924
Foreign exchange losses	-	-
Total	**943**	**924**

EUR 2,778 thousand of interest expense in the nine months 2019 consist of EUR 2,351 thousand of interest expense on bonds, EUR 419 thousand of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value and EUR 8 thousand on loans from Group companies (Q3 2019: interest expense in the amount of EUR 943 thousand consist of EUR 793 thousand of interest expense on bonds, EUR 144 thousand of interest expense related to the amortisation of transaction costs on bonds issue and EUR 6 thousand on loans from Group companies).

EUR 2,204 thousand of interest expense in the nine months 2018 consist of EUR 1,895 thousand of interest expense on bonds and EUR 309 thousand of interest expense related to the amortisation of transaction costs on bonds issue (Q3 2018: interest expense in the amount of EUR 924 thousand consist of EUR 793 thousand of interest expense on bonds and EUR 131 thousand of interest expense related to the amortisation of transaction costs on bonds issue).

24. Trade and other receivables

In thousands of EUR	30 September 2019	31 December 2018
Financial trade and other receivables		
Loans to Group companies (Note 27)	33,575	33,795
Other receivables from Group Companies (Note 27)	179	172
Other receivables due from related parties (Note 27)	195	-
Other receivables	5	5
	33,954	**33,972**
Non-financial trade and other receivables		
VAT receivable	44	18
	44	18
Total	**33,998**	**33,990**
Non-current	33,575	33,795
Current	423	195
Total	**33,998**	**33,990**

25. Loans and borrowings

Loans and borrowings for the nine months ended 30 September 2019 comprise secured bonds in the amount of EUR 39,132 thousand (31 December 2018: EUR 38,713 thousand) and loans from Group Companies in the amount of EUR 731 thousand.

26. Other liabilities

In thousands of EUR	30 September 2019	31 December 2018
Financial trade and other payables		
Accrued interest on bonds	336	336
Accrued interest on loans from Group companies	8	-
Other accrued expenses	-	109
Other payables to Group companies (Note 27)	165	58
Other payables to related parties (Note 27)	8	12
Payables to personnel	92	29
Other payables	16	62
	625	**606**
Non-financial trade and other payables		
Personal income tax payable	20	3
Social contributions payable	16	3
	36	**6**
Total	**661**	**612**
Non-current	-	-
Current	661	612
Total	**661**	**612**

27. Related parties

Transactions with key management personnel

Key management personnel compensation for the nine months and third quarter ended 30 September 2019 amounted to EUR 98 thousand and EUR 37 thousand respectively (9 months 2018: EUR 82 thousand; Q3 2018: EUR 32 thousand) and comprised only short-term employee benefits in the form of salaries and social contributions.

Other related party transactions

In thousands of EUR	Transaction values for 9 months 2019	Transaction values for 9 months 2018	Transaction values for Q3 2019	Transaction values for Q3 2018	Balance outstanding at 30 September 2019	Balance outstanding at 31 December 2018
Sales of goods and services						
Subsidiaries	189	19	29	19	-	-
Purchases of goods and services						
Shareholders	9	30	-	10	-	-
Subsidiaries	50	283	19	35	-	-
Other related parties	98	1,309	21	9	-	-
Interest income accrued during the period						
Subsidiaries	1,816	1,474	600	644	-	-
Interest expense accrued during the period						
Subsidiaries	8	-	6	-	-	-
Loans granted						
Subsidiaries	396	37,872	23	-	-	-
Loans received						
Subsidiaries	722	-	297	-	-	-
Other receivables						
Subsidiaries	-	-	-	-	179	172
Other related parties	-	-	-	-	195	-
Loans receivable						
Subsidiaries	-	-	-	-	28,881	30,798
Interest receivable						
Subsidiaries	-	-	-	-	4,694	2,997
Loans payable						
Subsidiaries	-	-	-	-	722	-
Interest payable						
Subsidiaries	-	-	-	-	8	-
Other payables						
Subsidiaries	-	-	-	-	165	58
Shareholders	-	-	-	-	-	-
Other related parties	-	-	-	-	8	12

As the Parent Company carries out holding operations through investing in and managing assets, all loans issued and outstanding as of 30 September 2019 are intra-group loans.

All related party transactions of the Group have been made on market terms in all material aspects.

STATEMENT BY THE BOARD OF DIRECTORS

The Board of Directors of European Lingerie Group AB has reviewed and approved condensed consolidated and Parent Company interim financial statements for the six months and second quarter ended 30 September 2019.

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act and give a true and fair view of the consolidated and Parent Company financial position, financial performance and cash flows.

Stockholm, 2 December 2019

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member, CEO

E | L | G

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