EUROPEAN LINGERIE GROUP

EUROPEAN LINGERIE GROUP AB

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

INFORMATION ON THE COMPANY

Name of the company	*European Lingerie Group AB*
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	*C/O Rödl & Partner Nordic AB,* *Drottninggatan 95 A,* *Stockholm, 113 60 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* *Indrek Rahumaa, Board Member* *Dmitry Ditchkovsky, Board Member*
Managing director	*Indrek Rahumaa*
Financial year	*1 January 2020– 31 December 2020*
Reporting period	*1 January 2020 – 31 December 2020*

Information on shareholders	*From 26 April 2019 and until 7 January 2020:* *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%)* *From 7 January 2020 and until 26 February 2020:* *Helike Holdings OU (71.18%),* *Bryum Capial Ltd (24.72%),* *SIA Silver Invest (1.80%),* *Pohja-Balti Usaldusfond (1.60%),* *Tuida Holding AB (0.40%) and* *Amorvero Holding OU (0.30%)* *From 26 February 2020:* *Helike Holdings OU (70.35%),* *Bryum Capial Ltd (25.55%),* *SIA Silver Invest (1.80%),* *Pohja-Balti Usaldusfond (1.60%),* *Tuida Holding AB (0.40%) and* *Amorvero Holding OU (0.30%)*
Information on the directly owned subsidiaries	*SIA European Lingerie Group* *(100.0% from 19 February 2018 until 1 June 2021;* *70.00% from 1 June 2021)* *Felina France S.a.r.l.* *(100.0% from 16 May 2018 until 13 April 2021)* *Senselle OOO* *(100% from 2 January 2019 until 28 April 2021)*
Auditors	*Ernst & Young AB* *Jakobsbergsgatan 24* *111 44 Stockholm, Sweden*

MANAGEMENT REPORT

General information

European Lingerie Group AB (the "Parent" and together with its subsidiaries the "Group") is a Public Limited Liability Company domiciled in Sweden. At 31 December 2020 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 a 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.

The Group is headquartered in Sweden, European Union. The Group operates its own production facilities in Latvia, Hungary, Germany and Belarus. 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 2020 exceeded EUR 63 million and the combined workforce was over 1,000 people.

Short description of the Group's activities in the reporting year and for the period after year end

In December 2019, a new outbreak of coronavirus (COVID-19) appeared in Wuhan, China. In the first quarter of 2020, the virus spread to other countries and has affected practically the whole world. With the rapid spread of COVID-19 pandemic around the world, an unprecedented healthcare crisis began, causing significant disruptions to the operations of companies and daily life of people.

In March 2020, various restrictions came into force in many countries to reduce the spread of COVID-19, significantly slowing down economic growth. These public policy measures, which were and still are aimed at limiting the spread of COVID-19, had a significant impact on economic activity in many sectors. At the same time, governments introduced various financial support mechanisms to mitigate the economic impact of the COVID-19 pandemic. Also European Lingerie Group companies have applied for such state aids.

After release of the restrictions and re-opening of shops at the end of the second quarter of 2020 and throughout the third quarter of 2020, the Group experienced rather stable recovery of its volumes, but when the countries were hit by COVID-19 second wave in the middle of Autumn, governments reinstated the lock-downs in majority of the countries, which is still continuing to various extent in most of the Group's main markets.

As a result of pandemic, revenue in 2020 for European Lingerie Group was 18.4% lower than in 2019. The drop in traditional textile and lingerie products was larger, but the Group was able to outweigh part of it with additional business from sewing protective masks as well as trading imported medical masks and respirators. This gave large support to the Group in covering its operating costs during the down-time period.

As response measures to the volume drop, the management initiated several cost saving actions to save the profitability and limit losses. These were implemented across all the Group's companies according to the available state supports in the counties of operations and contractual possibilities. The measures taken were downtime initiation for the employees, reduction of the number of employees where possible, reduction of production volumes with subcontractors to maximize internal capacity utilisation, initiation of alternative business opportunities, i.e. production of protective masks and selling imported medical masks, cancellation or putting on hold of all possible contracts and costs as well as application for state subsidies and state supported loans. These actions allowed the Group to restart production in June 2020 when lock-down measures in the countries were fully or partially released and when the customers restarted their operations and restarted their orders from the Group, to save costs and to continue being normalised EBITDA profitable and liquidity stable throughout the whole period.

Online retail of the Group continued working despite staff capacity limitations on various occasions during the lock-down periods and sales increased as compared to the same period last year and stable growth was achieved in Dessus-Dessous SAS in 2020.

As previously announced by the Group on several occasions, a lengthy restructuring process of the Parent's bonds was carried out since the end of 2019. In July 2020, the Group reached an agreement on a standstill with the Bondholder Committee (representing approximately 64 per cent of the Total Nominal Amount of the Bonds) regarding ELG's defaults under the Terms and Conditions as well as a cooperation between the ELG and the Bondholder Committee to explore and execute a potential restructuring of the Group and the Bonds. The initial long stop date for the standstill was 30 November 2020 (the "Standstill Period"), which was later extended to accommodate the transaction timeline.

Provided that certain conditions were met, the Bondholder Committee agreed to the following undertakings during the Standstill Period:

- not to instruct Intertrust (Sweden) AB (the "Agent") to accelerate the Bonds due to ELG's failure to (a) comply with the Maintenance Test covenant starting from Q3 2019, (b) pay Interest in respect of the Bonds on the Interest Payment Date for the Interest Period ending on 22 May 2020 and onwards, (c) comply with Clause 11.1(a)(i) (Information from the Issuer) due to the fact that ELG has not timely delivered the Audited Financial Report for the financial year 2019 and 2020, and (d) timely announce the intra-group transfer of shares of Felina GmbH from Felina International AG to E|L|B GmbH;
- to waive any breach of (a) Clause 13.4 (Financial Indebtedness) due to the planned additional aid loans and (b) Clause 13.8 (Negative Pledge) due to the additional security to be provided in respect of these loans.

The amendments, extensions and waivers above were subject to the Group's and principal shareholder continued cooperation with Bondholders' Committee for finalization of the investment process as well as certain milestones being satisfied throughout the investment process.

Furthermore, because of the ongoing restructuring process, the Group did not repay its Bonds on 22 February 2021, which was the original maturity date stipulated in the Terms and Conditions. The non-repayment of the bonds on the original maturity date constituted an Event of Default and any potential de-listing of the Bonds from Nasdaq Stockholm could result in an Event of Default under the Terms and Conditions. The Company restored the listing of the Bonds on Nasdaq Stockholm on 23 February 2021 and upheld it to correspond with the period to close the transaction under the concluded Master Transaction Agreement. The Bondholder Committee undertook, during the standstill period, not to instruct the Agent to accelerate the Bonds due to any such Event of Defaults.

As a result, in April 2021 the Group and its major shareholders signed an agreement with the Bondholder Committee, AS Rietumu Banka as a lender and its affiliated company RB ELG SIA as an equity investor on the restructuring of ELG and its Bonds, under which the Bonds are to be repaid with EUR 21 million in cash and the remaining nominal amount of EUR 19 million of the Bonds plus accrued and unpaid interest to be written down to zero.

After a competitive bid process during the standstill period with several investors showing an interest in ELG Group and placing bids on ELG and/or the parts of it, it has been concluded by the Bondholder Committee and ELG that the best cash compensation offered is the offer received from the lender and the equity investor named above. Considering the structure of alternative offers on any alternative non-cash compensation offered by other bidders, the offer received from the lender and the equity investor was also for other reasons considered the strongest offer.

In May 2021, the proposed restructuring was also approved by the holders of the Bonds through a written procedure in accordance with the Terms and Conditions and closed subsequently on 29 June 2021 as the First Closing with the repayment of the Bonds made on 7 July 2021 and on 2 July 2021 as the Second Closing. The restructuring included the following:

- the equity investor acquired 30% of shares in SIA European Lingerie Group (SIA ELG), a subsidiary of European Lingerie Group AB (ELG AB), and certain receivables of ELG AB from ELG SIA for the total purchase price of EUR 4.5 million;
- the lender provided a loan to the Group of EUR 22.5 million. The loan has been secured by an extensive security package over the SIA ELG group's assets (including real estates, assets, machinery, shares, trademarks, receivables, etc);
- the proceeds from the loan and the equity investment amounted to in total EUR 27 million. EUR 21 million was used to repay the Bonds,

EUR 2 million was used to refinance a bank loan issued to the ELG group's German subsidiary and the remainder of the proceeds is be used for working capital needs and transaction costs.

Financial result

Net sales of the Group amounted to EUR 63,284 thousand in 2020 (2019: EUR 77,554 thousand). Its core markets were the same as previous year and included Germany, Spain, France, Poland, Benelux countries, Italy, Baltic countries and CIS countries (Russia, Belarus and Ukraine). The decrease in sales was mainly a result of COVID-19 outbreak followed by partial deferral of orders by customers as well as significant reduction of orders during the lock-down periods. In addition to that, due to introduction of a smaller Felina swimwear collection in 2020, revenue of swimwear was also lower than in 2019.

Reported EBITDA amounted to a loss of EUR 699 thousand (2019: profit of EUR 8,184 thousand) and net result was a loss of EUR 10,517 thousand (2019: loss of EUR 220 thousand). Net loss was a result of:

- COVID-19 outbreak and shortfall in revenue which made it difficult to cover part of the fixed costs.
- Consulting and legal expenses related to further restructuring measures plan preparation for the Group as well as accrued costs for potential business model transformation.
- Transaction costs related to renegotiation of the Bond Terms and Conditions, establishment and registration of additional collateral requested by the bondholders as well as restructuring of the bonds through an investment process.
- Legal costs related to potential equity and debt attraction projects.
- Interest expense related to the amortization of transaction costs on bonds issue.

Financial position

At 31 December 2020 consolidated total assets amounted to EUR 64,265 thousand representing a decrease of 8.7% as compared to the statement of financial position at 31 December 2019.

Inventories balance decreased by 18.1% compared to the balance at 31 December 2019. The decrease was a result of reduction in production volumes to align with the current revenue levels as well as optimisation of the inventory levels. Also, the results of the started improvement measures in the consignment arrangements brought additional improvement in the total inventories balance at the reporting date.

Current trade and other receivables decreased by 25.4% compared to the balance at 31 December 2019 as a result of lower sales in 12 months 2020. Higher allowance for expected credit loss is a result of the bad economic cycle statistics applied for the calculations in 2020. The Group expects reversals of these additional allowances in the coming periods when the economic cycle applied to the calculation is changed to a normal cycle.

Cash and cash equivalents increased by EUR 4,550 thousand compared to 31 December 2019 mainly as a result of improvements in working capital and additional inflows from credit line facilities.

Loans and borrowings at 31 December 2020 increased by EUR 4,905 thousand compared to 31 December 2019, which is explained by the increase in the utilised credit line facilities and additional leases recognised after renegotiation of lease terms and conclusion of new lease agreements for new time frames.

Cash flows

Cash generated by operating activities amounted to EUR 5,095 thousand in 2020 which was mainly a result of improvement in working capital after reduction in inventories and receivables balances. Cash was used for payment of trade creditors, interest on loans and borrowings and income taxes resulting in net cash inflow from operating activities of EUR 3,679 thousand against net cash inflow of EUR 1,890 thousand in 2019.

During the reporting year, the Group invested EUR 626 thousand (2019: EUR 2,921 thousand) into property, plant and equipment and intangible assets with the largest investments made into Magento platform migration project in Dessus-Dessous S.A.S.

Cash flows from financing activities amounted to EUR 2,413 thousand in 2020 with proceeds from grants and donations being the main source of financing.

Further development of the Group

The year 2020 showed that the measures implemented by the Group for recovering lost sales volumes and improving profitability margins start to pay back. This further provides solid base to complete the investment and restructuring process of the bonds.

The Group expects to come back to pre-pandemic levels of revenue in the next 1 to 1.5 years, but with healthier profitability margins than historically. The Group appreciates the support of its customers, suppliers, employees and financiers. All implemented measures, as well as the general approach by the Group and its companies, are targeted at a long-term sustainability of the business as well as its positioning for the period of revived demand. The Group's business model is based on providing high-quality products in relatively short lead times, sourced locally. This is the fundament that is stable as many short-term disruptions come and go.

Risks and risk management

The Group works continuously to identify, assess and evaluate risks to which the Group is currently exposed to, and risks that are probable to occur in the foreseeable future. Risks are identified, assessed and managed based on the Group's vision and goals.

Operational risks of the Group are continuously evaluated within the daily operations. Management related risks are continuously reviewed by management and Group management reports to the Board of Directors on potential risk issues. The Board of Directors are responsible to the shareholders for the Group's risk management.

Identified risks are assessed regarding probability of occurrence and impact if occurring. The effectiveness of existing risk responses (such as safeguards, control activities etc.) are regularly assessed.

Risks can be mitigated through proactive actions, such as insurances or legal agreements, and in some cases the Group can influence the likelihood of a risk-related event occurring. Some risks such as those dependent on political decisions, or other macroeconomic factors, may not be possible to eliminate. If a risk is related to events beyond the control of the Group, work is aimed at alleviating the consequences.

Strategic risks

(i) Corporate governance and policy-related risks

The Board of Directors has overall responsibility for managing corporate governance and policy-related risks. All units of the Group work according to a management system that meets the Group's requirements, guidelines and policies. The rapid communication of appropriate information is safeguarded by following the Group's management structures and policies. Management systems are continuously being improved, through day-to-day work and through regular internal review.

(ii) Business development risks

Risks associated with business development and long-term planning are mainly managed through the Group's cross-functional meeting structure, which brings together various departments for decision-making of a strategic and tactical nature. This cross-functional meeting structure is long-established and is evolving all the time. This process of continuous evaluation and adaptation minimises the risks of the Group overlooking threats and opportunities and making wrong decisions that may lead to its operations not meeting the required standard. It also means that the risk of uncertainty and lack of clarity concerning the Group's strategy and business development can be managed in a precise and efficient way. In addition to this, European Lingerie Group continuously investigates new areas that may be of interest connected to the future development of the Group.

Operational risks

(i) Market risks

Variations in world financial markets can have a large or small impact on real economic cycles and, in turn can impact the demand for the Group's products. Markets may temporarily slow down or stand still, and local currencies may lose some of their value as a result. The extent of fiscal austerity programmes in different countries may have a negative impact on demand for our products as well.

The Group's well-diversified sales in more than 40 countries help to limit the effect of a downturn in any given market. In individual markets, substantial changes may occur in the business environment in respect of the introduction of or increase in customs duties and taxes. In addition, different countries' legal systems may have features that affect the Group's ability to carry out operations and sales. The Group monitors all of its markets continuously for early warning signs, which means the Group can make the necessary changes to its marketing strategy.

(ii) Risks in the sales network

Apart from the risks to sales volumes that are linked to the market risks described above, there are commercial risks in the sales network for various types of contracted relationships. Sales units assume a credit risk in relation to their customers, mainly for the goods sold. However, as the Group's customer base is widespread, the risk is limited in relation to each individual customer.

(iii) Supplier risks

To minimize the impact of production interruptions or financial problems among suppliers, the Group tries wherever possible to work with more than one supplier for critical items.

(iv) People and competence

The technology shift will also require a shift in competence and the Group must act proactively and identify future needs before they occur.

For its future success, the Group is dependent on its ability to attract and recruit employees with the right expertise, and retain, engage and shift the competencies of the workforce to ensure that the Group's operations can deliver the required product and service quality. Some of the important risks from a people management perspective that may affect deliveries are:

- Not enough of the right expertise
- Lack of business critical expertise
- Recruitment errors

The Group closely cooperates with a number of technical schools to create and recruit necessary expertise. The opportunities for professional development and career paths within the Group, along with individual development plans, attract new employees and will reduce the risk of losing expertise due to external employee turnover.

(v) Information risks

For the Group, it is crucial to handle information in a way that enables operations to share and process it efficiently and reliably, within the Group and also when working together with customers, suppliers and other business partners. The main risks that can affect information management are:

- Interruptions in critical information systems, regardless of the cause
- Strategic or other sensitive information is revealed to an unauthorised person or persons
- Strategic or other sensitive information in intentionally or unintentionally changed or corrupted

In their day-to-day operations, managers monitor the risk level in the respective area of responsibility and ensure that all employees are aware of their responsibilities.

(vi) Insurable risks

The Group works continuously with the identification, analysis and administration of insurable risks, both at Group and local level. Insurance policies to protect the Group's goods shipments, assets and obligations are arranged in accordance with the laws and standards in the country in question. Insurance is obtained only from well-reputed insurance companies, whole financial strength is continuously monitored.

Legal risks

The Group concludes numerous commercial and financial contracts, which is normal for a company of Group's scale and type. The Group's operations are not dependent on any single commercial or financial contract. Administration of contracts, essential rights and legal risks occur in the normal course of operations. All Group's entities conduct their business in accordance with national and international laws and regulations, in which they operate.

Financial risks

Beyond business risks, the Group's activities expose it to a variety of financial risks, including the credit risk, liquidity risk, risk of changing interest rates and exchange rates. The Group's management seeks to minimize potential adverse effects of financial risks on the financial performance of the Group.

Part of the Group's borrowings have variable interest rates. The management of the Group regularly reviews the significance of this risk and will apply risk hedging instruments in order to minimize the effect of variable interest rates in case the risk becomes high.

The Group is also exposed to the risk of changes in foreign exchange rates related to the operating activities of E|L|B GmbH Group, when sales and purchases of companies are denominated in a different currency from their functional currency. When the Group estimates the currency risk to be high for separate contracts and possible impact to be significant, forward exchange contracts are used to hedge the risk.

The financial assets, which potentially expose the Group to a certain degree of credit risk concentration are primarily cash, trade receivables, receivables from related parties and loans. The Group's policy provides that the goods are sold and services provided to customers with appropriate credit history. For the bank transactions only the local and foreign financial institutions with appropriate ranking are accepted.

The Group pursues a prudent liquidity risk management maintaining sufficient credit resources that allow settling liabilities when they fall due. The management of the Group manages the liquidity and cash flow risk by maintaining adequate cash reserves and securing sufficient financing, by using borrowings, credit lines, financial leases and factoring as well as by monitoring forecasted and actual cash flows and by matching term structure of financial assets and liabilities. The Group's current assets exceeded its current liabilities (excluding EUR 39,904 thousand of bonds liability) by EUR 13,414 thousand. The Group has a strong ability to meet its short-term obligations. Adjusted current ratio of the Group as at 31 December 2020 was 1.6 and Quick ratio was 0.8. The adjusted ratios exclude EUR 39,904 thousand of secured bonds liability from their calculation.

The financial risk management is further disclosed in Note 31.

Corporate social responsibility

The Group has special responsibility towards society and the environment. Accordingly, in addition to economic growth, its corporate strategy and business operations are also oriented to ecological and social values. For the Group, this responsibility translates into numerous areas of involvement designed to promote the health and professional development of employees as well as activities to protect the environment and the ecosystem.

The Group continually works with its employees and business partners to ensure the sustained success of the Group. For this purpose the business strategy focuses on the long-term enhancement of brand value, without neglecting the short-term requirements of the consumer and capital markets.

The Group acknowledges its responsibility for preserving environment for future generations, aims at improving living standards of both its employees and people living in the area of the Group's operations, seeks to enhance the quality of goods produced and thus commits to the following:

- Observe both national and international legislation on environment protection.
- Produce goods with maximum ecological efficiency, consume materials and energy resources efficiently.
- Reduce the level of environmental impact and waste products by improving current and adopting new resource saving, low waste or non-waste technologies.
- Constantly improve employees' knowledge on environment and ecology.
- Improve current environmental management system through its ongoing development and performance evaluation.

The Group acknowledges its responsibility for life and health of its employees as well as business partners, aims at improving safety and quality of working conditions and thus commits to the following:

- Observe both national and international legislation on labour rights protection.
- Guarantee safe working conditions to its employees: detect and analyse related risks on a regular basis; take all possible actions and allocate necessary funds to minimize negative impact of dangerous and harmful factors in the workplace.
- Constantly improve quality of working conditions and guarantee social support to the employees.
- Use modern equipment and new technologies to ensure safe working conditions and high level of labour productivity.
- Ensure employees' satisfaction, motivation and dedication by investing in professional training and education.
- Carry out employee performance reviews in all business areas in order to identify and promote personal development and career opportunities for each employee.

Subsequent events

Refer to Note 38 of these financial statements for subsequent events.

Proposed allocation of earnings

Funds in the Parent Company available for distribution were the following as of 31 December:

In thousands of EUR	2020	2019
Other paid in capital	43,500	43,500
Net income carried forward	(4,369)	(2,419)
Loss for the year	(3,236)	(1,950)
Total	**35,895**	**39,131**

Board of Directors proposes the following distribution (in thousands of EUR):

In thousands of EUR	2020	2019
To be carried forward	35,895	39,131
Total	**35,895**	**39,131**

CORPORATE GOVERNANCE REPORT

European Lingerie Group AB (the "Parent" or the "Company" and together with its subsidiaries the "Group") maintains a high international standard of corporate governance through the clarity and simplicity of its management systems and governing documents. Corporate governance at European Lingerie Group is based on the Articles of Association, Swedish legislation, in particular the Swedish Companies Act, the Annual Accounts Act and internal governing documents.

This Corporate Governance Report has been prepared in compliance with Chapter 6, Section 7 of the Annual Accounts Act.

Shareholders

The Group has one series of shares. All shares have equal rights to dividends and the Parent Company's residual assets. The Share Capital amounts to EUR 60 thousand, all shares are fully paid. The nominal value of one share is 1 EUR. Share capital shall be not less than EUR 60 thousand, but no more than EUR 240 thousand.

Each shareholder has the right to participate in the shareholders' meeting and to vote according to the number of shares owned. Shareholders who are not able to attend in person may exercise their rights by proxy. Each shareholder also has the right to have items included on the agenda of the meeting, regardless of the number of shares held, provided a request has been submitted to the Board of directors in sufficient time for the item to be included in the notice of meeting.

Through the General Meeting of shareholders, the shareholders can exercise their right to decide on certain important corporate matters, such as e.g. amending the Articles of Association, increasing and reducing the share capital, issuing convertible instruments, approving annual reports, deciding the distributions of profit, dissolution, merger or division of the Company and certain other matters. The General Meeting of shareholders is the highest governing body of the Group. In matters which do not relate to elections, resolutions may generally be adopted by the General Meeting of shareholders by a simple majority of the votes cast. In the event of a tied vote, the chairman of the meeting has the casting vote. In an election, the person who receives the most votes shall be deemed elected. In the event of a tied vote, the election shall be determined by the drawing of lots, unless the General Meeting of shareholders decides prior to the election that a new vote shall be held in the event of a tied vote. However, certain resolutions may only be adopted by qualified majority. For example, a resolution regarding amendment of the Articles of Association is only valid where supported by shareholders holding not less than two-thirds of both the votes cast and the shares represented at the General Meeting of shareholders. The shareholders' meeting may not make any decision that aims to give undue advantage to one shareholder or individual at the disadvantage of the company or any other shareholder.

Annual general meeting is held annually within 6 months after the end of financial year.

Notice of shareholder's meeting is kept available on the Company's website.

The Board of Directors

The Board of Directors has overall responsibility for managing corporate governance, policy-related risks, Company's organisation and managing Company's business. All units of the Group work according to a management system that meets the Group's requirements, guidelines and policies. The rapid communication of appropriate information is safeguarded by following the Group's management structures and policies. Management systems are continuously being improved, through day-to-day work and through regular internal review.

The Board of Directors consists of 3-7 members, one of which is to be appointed chair. The Chairman has particular responsibility for leading the work of the Board and ensuring that it fulfils its legal obligations. The Chairman ensures that the work of the Board is carried out timely and efficiently. The duties of the Chairman also include being in regular contact with and providing support to the Managing Director. Among other things, the Chairman is responsible for the Board members continuously receiving the information necessary to monitor the Company's position, performance, liquidity, financial planning and development, for ensuring that the Board's decisions are executed in an effective manner.

The Board of Directors shall primarily resolve on issues regarding the Company's long-term business, strategy and issues which, with regard to the scope and nature of the Company's operations, are of an extraordinary character or of a great significance. The Board of Directors shall also have a monitoring role.

Board members represent competence and operational experience from the lingerie and textile business perspective, financial expertise and best practice organization development and corporate governance. A majority of the members of the Board are independent of the Company and its management. The Board's way of working is set forth in the Companies Act, the Articles of Association and Rules of Board Procedure adopted by the Company. The Board is responsible for ensuring that the company has good internal controls. The Board is to ensure that the Group has formalised routines to ensure that approved principles for financial reporting and internal controls are applied, and that the Group's financial reports are produced in accordance with legislation, applicable accounting standards.

The control is based, among other things, on documented policies, guidelines, instructions, responsibility distributions and work distributions such as the Rules of Board Procedure and instructions for the Managing Director.

For the year ended 31 December 2020 Members of the Board were as follows:

- Carl Oscar Edgren (from 11 October 2019), Chairman of the Board
- Indrek Rahumaa, Chairman of the Board (until 11 October 2019), Member of the Board (from 11 October 2019)
- Dmitry Dichkovsky, Member of the Board

Carl Oscar Edgren is a venture capital investor and advisor with extensive experience in finance and private equity. He served as Associate on the fixed income desk at Union Bancaire Privée (UBP), as Vice President at FBR Capital Markets, responsible for a diverse institutional client base across regions. Most recently as Venture Partner at Strenuus Capital, a London based family office, before setting up his own investment and consultancy company. Over the past seven years, he has worked with multiple tech start-ups, as well as focusing on expansion capital and restructuring of small to mid-sized companies. Carl Oscar holds a BA Hons degree in Economics/Finance from University of Westminster and University of Miami. He is approved by the UK Financial Conduct Authority (FCA) since 2003.

Indrek Rahumaa is one of the European Lingerie Group's investors, Managing Director and Member of the Board since 2019. Having a Master's Degree in Finance (Stockholm School of Economics) together with the extensive industry knowledge and know-how he has helped the Group to develop and gain its current market positions. Previously Indrek Rahumaa was a founding member and a partner of Baltic Cresco Investment Group AS, a founding member of Tallinn Stock Exchange and served as the CFO for the Estonian national air carrier Estonian Air. He has also served as a member of the Listing Committee of the OMX Tallinn Stock Exchange and has served on the Boards of Mieszko and Silvano Fashion Group. Before, he was the Chairman of the Board of Alta Capital Partners, a Baltic and CEE investment group. Indrek was a Chairman of the Board until 11 October 2019, when he stepped in as an active CEO of the Group and moved to the Board Member position. Carl Oscar Edgren was elected a new Chairman.

Shareholding in European Lingerie Group AB: 42,213 shares indirectly.

Dmitry Ditchkovsky has obtained broad knowledge and professional experience in the fashion industry (lingerie manufacturing and retailing) in CIS and Baltic countries. Previously Dmitry was a board member of Silvano Fashion Group during its formation and reverse take-over and a long time General Director of SP ZAO Milavitsa, the largest lingerie company in CIS, a core subsidiary of Silvano Fashion Group. Before that he established and ran the first private business school in Belarus, IPM Business School as a co-founder and a President. Dmitry has obtained a Master's degree in Economics at Belarus State Economic University, PhD in Economics from the National Academy of Sciences and MBA from University of New Brunswick (Canada). He has attended numerous executive training and professional development courses in Europe and USA, as well as published more than 20 studies on economics and management topics. Dmitry is Member of Board of the Company since 2018. Other current commitments of importance: Member of the Board of Directors of Tsentroenergomontazh, JSC and Chairman of the Board of Directors of IPM Business School, Minsk.

Managing Director

The Managing Director is responsible for the Company's day-to-day management. Matters of an unusual nature or of exceptional importance due to their scope and the nature of the Company's business are not considered part of the day-to-day management.

The Managing Director must prepare and present issues that are outside the scope of day-to-day management to the Board of Directors. The Board may provide written instructions on when and how the required information is to be collected and reported to the Board.

The Managing Director is subordinate to the Board of Directors. The Board may instruct the Managing director on how day-to-day management issues are to be handled or decided. The Managing Director is obliged to follow the instructions given by the Board. The Board itself may also decide on matters that are a part of day-to-day management. The Managing Director of the Company is a member of the Board but not its chair. Irrespective of whether the Managing Director is a Member of the Board, he has the right to attend and speak at Board meetings providing that the Board does not decide otherwise in a particular circumstance.

Peter Partma served as a Managing Director until 11 October 2019, and was replaced by Indrek Rahumaa from that date.

Auditors

The Group's auditors are appointed by the shareholders' meeting to examine the annual accounts and accounting practices and to review the Board's and the Managing Director's management of the Company. Auditors are also to examine the consolidated accounts. Auditors are given their assignment by, and are obliged to report to, the owners, and they must not allow their work to be governed or influenced by the Board or the executive management.

Auditors present their reports to the owners at the Annual General Meeting in the annual audit report. The audit report contains a statement on whether the annual report has been compiled in accordance with the relevant legislation. If the annual report does not include items that are required by the relevant legislation, auditors must state this and, if possible, provide the necessary information in the audit report.

Auditors is also obliged to report if any Member of the Board or the Managing Director has carried out any action or committed any oversight that may result in liability for damages. The same applies if auditors have found that any Member of the Board or the Managing Director has acted in any other way that is in breach of the relevant legislation on annual accounts.

Ernst & Young AB was elected to be the auditor of the Group for the year ended 31 December 2020. Ernst & Young AB had been the auditor of the Group during previous year.

SUSTAINABILITY REPORT

Sustainability report has been prepared in accordance with the requirements in the Annual Accounts Act.

The report has been approved on July 28, 2021 and can be found at the Group's website: www.elg-corporate.com

EUROPEAN LINGERIE GROUP AB

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

Consolidated statement of profit or loss and other comprehensive income

For the period ended 31 December

In thousands of EUR	Note	2020	2019
Revenue	*7,8*	**63,284**	**77,554**
Other operating income	*9*	3,630	2,431
Changes in inventories of finished goods and work in progress		207	1,819
Raw materials and services	*10*	(25,818)	(29,615)
Employee benefits expense	*11*	(24,034)	(26,089)
Depreciation, amortisation and impairment of intangible assets	*16, 17, 18*	(4,011)	(4,131)
(Impairment loss)/reversal of impairment loss on trade and other receivables	*31 (ii)*	(270)	194
Other operating expenses	*12*	(17,698)	(18,110)
Operating profit		**(4,710)**	**4,053**
Finance income	*13*	2,114	455
Finance costs	*14*	(6,376)	(4,607)
Net finance costs		**(4,262)**	**(4,152)**
Loss before income tax		**(8,972)**	**(99)**
Income tax expense	*15*	(1,545)	(121)
Loss for the year attributable to owners of the Parent Company		**(10,517)**	**(220)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of net employee defined benefit liability	*26*	(111)	227
Related income tax	*15*	(93)	(70)
		(204)	**157**
Items that are or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(992)	116
		(992)	**116**
Other comprehensive income, net of tax		**(1,196)**	**273**
Total comprehensive income		**(11,713)**	**53**

The accompanying notes on pages 21 to 75 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 28 July 2021

Consolidated statement of financial position

As at 31 December

In thousands of EUR	*Note*	2020	2019
Assets			
Property, plant and equipment	*16*	9,533	11,066
Right-of-use assets	*17*	4,709	4,306
Intangible assets	*18*	14,049	14,573
Deferred tax assets	*15*	709	1,926
Other receivables	*21*	651	717
Total non-current assets		**29,651**	**32,588**
Inventories	*20*	16,773	20,471
Current tax assets		159	280
Trade and other receivables	*21*	11,084	14,854
Contract assets	*8*	26	29
Prepayments		657	799
Cash and cash equivalents	*22*	5,915	1,365
Total current assets		**34,614**	**37,798**
Total assets		**64,265**	**70,386**
Equity			
Share capital	*23*	60	60
Reserves	*23*	(1,208)	(216)
Retained earnings		(6,313)	4,408
Total equity attributable to equity holders of the parent		**(7,461)**	**4,252**
Liabilities			
Loans and borrowings	28	3,552	2,666
Net employee defined benefit liability	*26*	3,258	3,336
Deferred income	*30*	385	449
Provisions	*27*	158	221
Other payables	*29*	68	92
Deferred tax liabilities	*15*	3,201	2,983
Total non-current liabilities		**10,622**	**9,747**
Loans and borrowings	28	48,349	44,330
Trade and other payables	*29*	9,478	11,513
Contract liabilities	*8*	320	192
Current tax liabilities		168	191
Provisions	*27*	2,687	46
Deferred income	*30*	102	115
Total current liabilities		**61,104**	**56,387**
Total liabilities		**71,726**	**66,134**
Total equity and liabilities		**64,265**	**70,386**

The accompanying notes on pages 21 to 75 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 28 July 2021

Consolidated statement of changes in equity

For the period ended 31 December 2020

		Attributable to owners of the Parent Company			
In thousands of EUR	*Note*	Share capital	Translation reserve	Retained earnings	Total equity
Balance at 31 December 2018		**60**	**(332)**	**5,086**	**4,814**
Total comprehensive income					
Loss for the period		-	-	(220)	(220)
Other comprehensive income		-	116	157	273
Total comprehensive income		**-**	**116**	**(63)**	**53**
Contributions and distributions					
Equity-settled share-based payment	*37*	-	-	(615)	(615)
Total contributions and distributions		**-**	**-**	**(615)**	**(615)**
Balance at 31 December 2019		**60**	**(216)**	**4,408**	**4,252**
Total comprehensive income					
Loss for the period		-	-	(10,517)	(10,517)
Other comprehensive income		-	(992)	(204)	(1,196)
Total comprehensive income		**-**	**(992)**	**(10,721)**	**(11,713)**
Balance at 31 December 2020		**60**	**(1,208)**	**(6,313)**	**(7,461)**

The accompanying notes on pages 21 to 75 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 28 July 2021

Consolidated statement of cash flows

For the period ended 31 December

In thousands of EUR	*Note*	2020	2019
Cash flows from operating activities			
Loss for the reporting year		**(10,517)**	**(220)**
Adjustments for:			
Depreciation	*16, 17*	3,073	3,224
Amortization	*18*	717	725
Impairment losses on goodwill	*18*	221	182
(Reversal of) impairment losses on trade and other receivables	*31 (ii)*	270	(194)
Income from government grants	*9*	(2,649)	(226)
Finance income	*13*	(50)	(51)
Finance costs	*14*	4,379	4,228
Foreign exchange gains	*13*	(2,064)	(404)
Foreign exchange losses	*14*	1,997	379
Gain on bargain purchase	*9*	-	(22)
Gain on disposal of subsidiary	*9*	-	(217)
Net loss on disposal of property, plant and equipment, intangible assets	*9, 12*	55	71
Equity-settled share-based payment transactions	*37*	-	(615)
Gain on termination of lease agreement		(24)	(1)
Income tax expense	*15*	1,545	121
Changes in:			
Inventories		3,698	(1,463)
Contract assets		3	(3)
Trade and other receivables		4,037	(745)
Prepayments		142	140
Trade and other payables		(2,234)	1,411
Contract liabilities		128	(100)
Provisions		2,578	(57)
Net employee defined benefit liability		(210)	(302)
Cash generated from operating activities		**5,095**	**5,861**
Interest paid		(1,344)	(3,585)
Income taxes paid		(72)	(386)
Net cash from operating activities		**3,679**	**1,890**
Cash flows from investing activities			
Interest received		31	6
Proceeds from sale of property, plant and equipment and intangible assets		32	56
Proceeds from repayment of loans issued		26	74
Cash disposed on disposal of subsidiary	*33*	-	(2)
Acquisition of subsidiary net of cash acquired	32	(51)	(228)
Acquisition of property, plant and equipment and intangible assets		(626)	(2,921)
Deposits placed in restricted accounts		(100)	-
Net cash used in investing activities		**(688)**	**(3,015)**

The accompanying notes on pages 21 to 75 form an integral part of these financial statements.

Consolidated statement of cash flows
(continued)

For the period ended 31 December

In thousands of EUR	*Note*	2020	2019
Cash flows from financing activities			
Proceeds from loans and borrowings	*28*	647	166
Change in bank overdraft	*28*	1,210	1,573
Repayment of loans and borrowings	*28*	(54)	-
Payment of lease liabilities	*28*	(1,313)	(1,299)
Proceeds from sale and leaseback transaction	*28*	-	595
Proceeds from grants and donations		2,536	13
Factoring paid	*28*	(613)	(77)
Net cash from financing activities		**2,413**	**971**
Net increase/(decrease) in cash and cash equivalents		**5,404**	**(154)**
Cash and cash equivalents at 1 January	**22**	**1,365**	**1,335**
Effect of movement in exchange rates on cash held		(854)	184
Cash and cash equivalents at 31 December	**22**	**5,915**	**1,365**

The accompanying notes on pages 21 to 75 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren *Chairman of the Board*	*Dmitry Ditchkovsky* *Board member*	*Indrek Rahumaa* *Board member*

Stockholm, 28 July 2021

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

European Lingerie Group AB (the "Parent") is a Public Limited Liability Company domiciled in Sweden, register code 559135-0136. The legal and postal address of the Company is C/O Rödl & Partner Nordic AB, Drottninggatan 95 A, Stockholm, 113 60 Sweden. These consolidated financial statements comprise the Parent and its subsidiaries (together referred to as the "Group"). The subsidiary companies consolidated with the Parent are detailed in Note 3.1 (i).

The Group is primarily involved in manufacturing, processing, wholesale and retail of textiles and lingerie products. At 31 December 2020, 70.35% of the Company's shares were owned by Helike Holdings OU, 25.55% - by Bryum Capital Ltd, 1.80% - by SIA Silver Invest, 1.60% - by Pohja-Balti Usaldusfond, 0.40% - by Tuida Holding AB and 0.30% - Amorvero Holding OU. Helike Holdings OU was the ultimate Parent of the Group at 31 December 2020. The ultimate beneficial owners of the Group are Indrek Rahumaa and John Anthony Bonfield.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and RFR 1 issued by the Swedish Financial Reporting Board. The consolidated financial statements were authorised for issue by the Board of Directors on 28 July 2021. The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, and the parent company statement of profit or loss and other comprehensive income and statement of financial position will be subject to approval by the annual general meeting. The owners have the right to reject the consolidated financial statements prepared and issued by management and the right to request that new consolidated financial statements are issued. These are consolidated financial statements prepared for statutory purposes.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. For additional details on the principal sources of estimation uncertainty, refer to Note 4 on Use of judgments and estimates.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis at the reporting date.

Items	Measurement bases	Note
Net employee defined benefit liability	Fair value of plan assets less the present value of the defined benefit obligation	*26*

2.3 Functional and presentation currency

These consolidated financial statements are presented in euro, which is the Parent's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.4 Going concern basis of accounting

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue as a going concern, including to pay its debts as and when they fall due. The management assessed the impact of the COVID-19 outbreak on the Group's operations in 2020 and 2021 and concluded that it does not affect the Group's ability to continue as a going concern. For more details on going concern considerations refer to Note 24, for details on Covid-19 impact on the Group refer to Note 38 .

3. Significant accounting policies

The accounting policies set out below have been applied consistently in the periods presented in these consolidated financial statements.

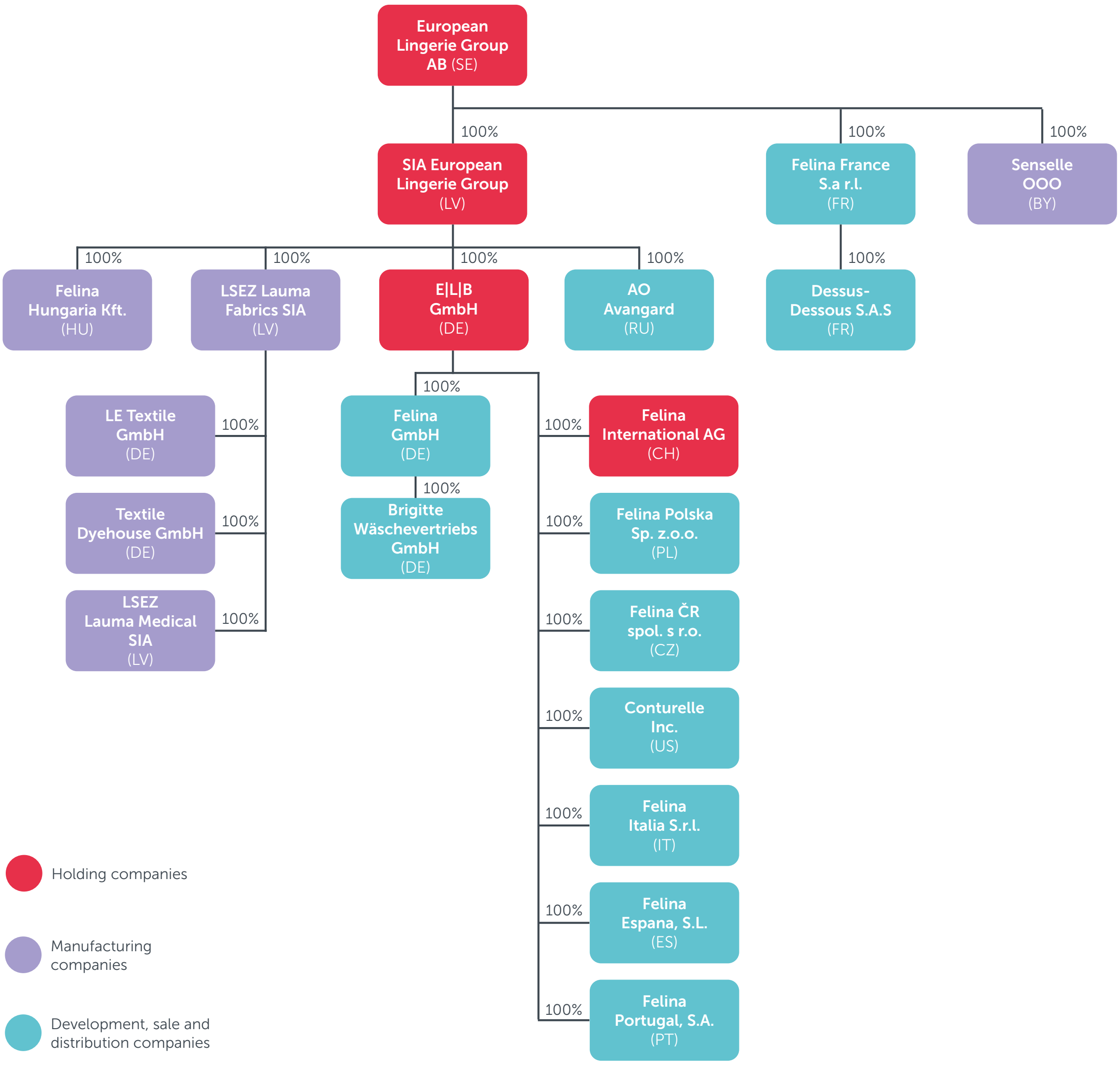
The accounting policies have been applied consistently by Group entities.

3.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The reporting periods and dates of the financial statements of the Parent and the subsidiaries correspond to the reporting period and date of the consolidated financial statements. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The structure of the Group at 31 December 2020 is presented below:



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 31 December 2020	Proportion of ownership interest at 31 December 2019	Principal activity
SIA European Lingerie Group (previously AS European Lingerie Group)	Latvia	100%	100%	Holding Company
LSEZ Lauma Fabrics SIA	Latvia	100%	100%	Production and wholesale
LE Textile GmbH	Germany	100%	100%	Knitting and design development
Textile Dyehouse GmbH	Germany	100%	100%	Dyeing and finishing services
E|L|B GmbH	Germany	100%	100%	Holding Company
Felina Internationl AG	Switzerland	100%	100%	Holding Company
Felina Italia S.r.l.	Italy	100%	100%	Wholesale
Felina France S.a r.l.	France	100%	100%	Wholesale
Felina GmbH	Germany	100%	100%	Production and wholesale
Brigitte Wäschevertriebs GmbH	Germany	100%	100%	Retail
Felina Espana S.L.	Spain	100%	100%	Wholesale
Felina Hungaria Kft.	Hungary	100%	100%	Production and wholesale
Felina Polska Sp. z o.o.	Poland	100%	100%	Retail and wholesale
Felina ČR spol. s.r.o.	Czech Republic	100%	100%	Wholesale
Felina Portugal S.A.	Portugal	100%	100%	Wholesale
Conturelle Inc.	USA	100%	100%	Wholesale
AO Avangard	Russia	100%	100%	Wholesale
Dessus-Dessous S.A.S	France	100%	100%	Online retail
Senselle OOO	Belarus	100%	100%	Production and wholesale
LSEZ Lauma Medical SIA	Latvia	100%	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 32.

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 33.

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 is involved in production and wholesale of medical textiles under Lauma Medical brand name.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Any goodwill that arises is tested annually for impairment and carried at cost less accumulated impairment losses. Any gain on a bargain purchase is recognised in profit or loss immediately.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration, that meets the definition of a financial instrument, is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(iv) Transactions under common control

The Group accounts for transactions under common control using pooling of interest method.

(v) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlled interest and other components of equity. Any resulting gain or loss is recognised in profit or loss.

(vi) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in joint ventures. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which joint control ceases. If the equity-accounted investee's net assets are negative, the investee reports net loss and the Group has no commitment to make additional contributions into the capital of the investee, the Group's share of profit or loss and other comprehensive income equals zero.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Management Board of the Parent company. Further details on operating segments are disclosed in Note 7.

3.3 Foreign currency

(i) Presentation currency

The Group consolidated financial statements are presented in euro, the functional currency of the Parent.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated into the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognised in profit or loss and presented within finance income and finance costs.

Exchange rates published by the European Central Bank for CHF, PLN, HUF, CZK, USD, RUB and by the National Bank of the Republic of Belarus for BYN were as follows:

	31 December 2020	Average for 2020
1 EUR/CHF	1.0802	1.0705
1 EUR/PLN	4.5597	4.4430
1 EUR/HUF	363.8900	351.2500
1 EUR/CZK	26.2420	26.4550
1 EUR/USD	1.2271	1.1422
1 EUR/RUB	91.4671	82.7248
1 EUR/BYN	3.1680	2.7758

	31 December 2019	Average for 2019
1 EUR/CHF	1.0854	1.1124
1 EUR/PLN	4.2568	4.2976
1 EUR/HUF	330.5300	325.3000
1 EUR/CZK	25.4080	25.6700
1 EUR/USD	1.1234	1.1195
1 EUR/RUB	69.9563	72.4553
1 EUR/BYN	2.3524	2.3418

(iii) Foreign operations

The assets and liabilities of foreign operations, are translated to euro at the exchange rates at the reporting date. Income and expenses of foreign operations, are translated to euro at average exchange rates for the reporting period.

Foreign currency differences are recognised in other comprehensive income and presented in the translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

3.4 Revenue from contracts with customers

(i) Types of revenue

The Group generates revenue primarily from the sale of textiles and lingerie products. The Group is also involved in provision of cutting and garment sewing services as well as in provision of fabrics dyeing and finishing services. Other minor revenue streams come from commissions and licence rights.

Sale of goods – wholesale

The Group sells textiles and lingerie products through wholesale.

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group controls the goods before transferring them to the customer, which generally occurs when the goods are collected from the seller's premises by the customer. The normal credit term ranges from 10 to 180 days upon goods shipment from the warehouse.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, and consideration payable to the customer (if any).

Sale of goods – retail

The Group operates a chain of retail stores and an online store selling lingerie ready garments.

Revenue from the sale of goods is recognised when the Group sells a product to the customer and customer takes delivery of the product, which occurs at the same time. Payment of the transaction price is due immediately when the customer purchases the goods and takes delivery.

Rendering of services

The Group is involved in provision of cutting and garment sewing services as well as in provision of fabrics dyeing and finishing services. Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Commission income

The Group acts as an agent in promoting sales transactions on behalf of third parties within a particular territory in such a way that the Group promotes goods of third parties and obtains orders at the terms and conditions indicated by third parties. The Group does not conclude sale and purchase transactions, those are concluded by the third party and customer directly. For the activities carried out the Group receives a commission income as a percentage of revenue earned by third party from orders obtained by the Group. Revenue from commission income is recognised by the Group when the goods are sold by the third party to the customer.

License income

The Group grants a right to third parties to use its registered brand name Shelina to sell goods, branded with this name, for the remuneration. Revenue is recognised as a percentage of revenue earned from the sale of Shelina branded goods.

Transportation income

The Group arranges in some cases for the delivery of goods for its customers at its own cost and afterwards recharges those transportation costs to customers. The Group acts as an agent in these transactions. No margin or commission is earned on top of the costs recharged. Transportation income earned is offset against respective transportation costs which are recognised as 'storage, transportation and packaging' within 'other operating expenses' line item of the statement of profit or loss and OCI.

(ii) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

Rights of return

Certain contracts in lingerie segment provide a customer with a right to return the goods within a specified period. The Group uses the expected value method based on historic experience to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right to recover returned goods (and a corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

(iii) Significant financing component

The Group sometimes receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

(iv) Contract balances

Contracts assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 3.14 for more details.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(v) Assets and liabilities arising from right of return

Right of return assets

Right to recover returned goods asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products. The right to recover returned goods is included in inventory (see Note 20).

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration. The refund liability is included in trade and other payables (see Note 29).

3.5 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset), taking into account any changes in the defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss within finance income/costs.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3.6 Share-based payment arrangements

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

The grant-date fair value of equity-settled share-based payment arrangements is recognised as an expense, with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

3.7 Government grants

The Group recognises government grants at fair value as income if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same period in which the expenses are recognised.

Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Government grants are reported gross under liabilities in the statement of financial position.

3.8 Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- fines and penalties received in relation to trade receivables late payment;
- fines and penalties paid in relation to trade payables late payment;
- gain or loss from the revaluation of forward exchange contracts.

Interest income or expense is recognised using effective interest rate method.

3.9 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences

- and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

3.11 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Raw materials cost is measured according to the first-in, first-out method for raw materials used in the production of textiles, and weighted average method for raw materials used in the production of lingerie products. Work in progress and finished goods are carried at cost. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Write downs to net realizable value for obsolete and slow-moving inventories are recognized by the Group at the end of each reporting period.

3.12 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs if any, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

-	Buildings	10-50 years
-	Machinery and equipment	5-10 years
-	Other fixed assets	3-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.13 Intangible assets

(i) Recognition and measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.
Intangible assets with indefinite useful life	Intangible assets with indefinite useful life include brand names and are measured at cost less accumulated impairment losses. Brand names were determined as having indefinite lives, as there is no foreseeable limit to the cash flows generated by these assets and the management expects to utilize these assets to continually sell goods under the respective brands. There is no intention to sell or otherwise use the brands in such a manner as to prevent the Group's ability to achieve expected future cash flows from the brands.
Other intangible assets	Other intangible assets, including customer relations, order backlog and software, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in profit or loss. Goodwill and brand names are not amortised.

The estimated useful lives of intangible assets are as follows:

-	Customer relations	5 years
-	Order backlog	1.5 years
-	Software	3-5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.14 Financial instruments

(i) Financial assets and financial liabilities – Recognition and classification

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies financial assets into financial assets at fair value through profit or loss (FVTPL), financial assets at amortised cost, financial assets at fair value through other comprehensive income (OCI). The Group's financial assets include financial assets at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Group classifies financial liabilities, at initial recognition, into financial liabilities at fair value through profit or loss, loans and borrowings, and payables. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

(ii) Financial assets – Measurement

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets (excluding trade receivables) are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see Note 3.16 (i)). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Trade receivables are measured at the transaction price determined under IFRS 15 (refer to the accounting policies in Note 3.4).

The Group's financial assets at amortised cost include trade and other receivables, loan to joint venture and loans to shareholders.

(iii) Financial assets – Business model assessment

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

(iv) Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

(v) Financial liabilities – Measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost (loans and borrowings). Financial liabilities are recognised initially at fair value and, in case of financial liabilities as measured at amortised cost, net of directly attributable transaction costs. Financial liabilities as measured at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(vi) Financial assets and liabilities – Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(vii) Financial assets and liabilities – Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

3.16 Impairment

(i) Non-derivative financial assets

Financial instruments and contract assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Note 4, disclosure of significant judgements and estimates
- Note 31, disclosure of financial assets and related ECLs

The Group recognises loss allowances for expected credit losses (ECLs) for financial assets measured at amortised cost.

The Group recognises an allowance for ECLs for loans based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For the purpose of ECLs calculation for trade and other receivables and contract assets the Group splits debtors to those, assessed individually, and those, assessed collectively. Individually assessed debtors include individually significant customers, collectively assessed – all the rest.

For collectively assessed debtors the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established and applies a provision matrix separate for textiles segment and lingerie segment, that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For individually assessed debtors the Group calculates ECLs based on cash flow projections of future payments. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at the Group's bonds rate.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to loans, trade and other receivables, including contract assets, are presented as a separate line item in the statement of profit or loss.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

(ii) Equity-accounted investee

At each reporting date, the Group determines whether there is objective evidence that investment into equity-accounted investee is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value. The loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(iii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite useful life are tested for impairment annually.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. The Group has four cash generating units: Felina International AG Group, representing lingerie products segment; Dessus-Dessous S.A.S, representing lingerie products segment; LSEZ Lauma Fabrics Group, representing textiles segment; and AO Avangard, representing textiles segment. Goodwill arising from business combinations is allocated to the respective cash-generating unit that has been acquired in the business combination (Felina International AG Group, AO Avangard and Dessus-Dessous S.A.S).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.17 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Jubilee provision

Jubilee provision is recognised by Felina GmbH based on the estimated future payments to employees reaching 25 and 40 years of staff membership discounted at a high-quality bond rate.

Retirement reward provision

Retirement reward provision is recognized by Dessus-Dessous S.A.S based on the estimated future payments to employees reaching 8, 10, 15, 20, 25 and 30 years of staff membership on their retirement discounted at a high-quality bond rate.

Other provisions

Other provisions include provisions for payments to customers for advertising and promotion, provisions for legal cases and other minor provisions.

3.18 Related parties

According to the policy followed by the Group, related parties of the Group include legal entities and private individuals related to the Group in accordance with the following rules:

a) A person is related to a reporting entity if that person:
   - i) Has control or joint control over the reporting entity;
   - ii) Has significant influence over the reporting entity; or
   - iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity under the following conditions:
   - i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
   - iii) The entity is controlled, or jointly controlled by a person identified in a);
   - iv) A person identified in a) i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
   - v) The entity, or any member of the group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

3.19 Leases

Determining whether an arrangement contains a lease

The Group assesses at contract inception whether a contract is, or contains, a lease. That is the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings	5 to 10 years
Machinery and equipment	1.5 to 10 years
Other fixed assets	1 to 7 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date in case the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in loans and borrowings (see Note 28).

(iii) Short-term lease liabilities

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognised in other operating income on a straight-line basis over the lease term.

3.20 Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

3.21 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument, if available. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account when pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

4. Use of judgements and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is described below.

4.1 Impact of COVID-19

General information on the impact of COVID-19 on the Group's operations

The World Health Organization (WHO) declared the outbreak of COVID-19 a public health emergency of international concern on 30 January 2020, and on 11 March 2020, characterized the spread of the disease as a pandemic. In March 2020, various restrictions came into force in many countries, where the Group operates, to reduce the spread of COVID-19, significantly slowing down economic growth. These public policy measures, which were and still are aimed at limiting the spread of COVID-19, have a significant impact on economic activity in many sectors. At the same time, governments introduced various financial support mechanisms to mitigate the economic impact of the COVID-19 pandemic. Also, European Lingerie Group companies have applied for such state aids.

After release of the restrictions and re-opening of shops at the end of the second quarter of 2020 and throughout the third quarter of 2020, the Group experienced rather stable recovery of its volumes, but when the countries were hit by COVID-19 second wave in the middle of Autumn and third wave during Winter, governments reinstated the lockdowns in majority of the countries, which continued to various extent in most of the Group's main markets during first months of 2021. As a result, the fourth quarter of 2020 had slightly larger drop in revenue against the same period last year than the third quarter showed.

The full impact of the COVID-19 pandemic on economic activity is not yet known and the situation continues to evolve. Management believes that the COVID-19 pandemic will not have a material impact on the Group's operations after the balance sheet date. However, this assumption is based on information available at the date of signing the financial statements, and the impact of future events on the Group's ability to continue as a going concern may differ from management's assessment.

Going concern

As a result of the above-mentioned situation caused by COVID-19, the Group's sales decreased by 18.4%, and the net loss increased by EUR 10,297 thousand compared to previous year. The drop in traditional textile and lingerie products was larger, but the Group was able to outweigh part of it with additional business from sewing protective masks as well as trading imported medical masks and respirators. This gave large support to the Group in covering its operating costs during the downtime period. As response measures to the volume drop, the management initiated several cost saving actions to save the profitability. These were implemented across all the Group's companies according to the available state supports in the counties of operations and contractual possibilities. The measures taken were downtime initiation for the employees, reduction of the number of employees where possible, reduction of production volumes with subcontractors to maximize internal capacity utilisation, initiation of alternative business opportunities, i.e. production of protective masks, cancellation or putting on hold of all possible contracts and costs as well as application for state subsidies and state supported loans. These actions allowed the Group to restart production in June 2020 when lock-down measures in the countries were fully or partially released and when the customers restarted their operations and restarted their orders from the Group, to save costs and to continue being EBITDA profitable and liquidity stable throughout the whole period. Online retail of the Group continued working as normal during the lock-down periods and online sales were even higher in 2020 against last year.

The year 2020 showed that the measures implemented by the Group for recovering lost sales volumes and improving profitability margins start to pay back. The Group's management expects to come back to pre-pandemic levels of revenue in the next 1 to 1.5 years, but with healthier profitability margins than historically.

In addition, in April 2021 the Group and its major shareholders signed an agreement with the Bondholder Committee (representing approximately 64 per cent of the Total Nominal Amount of the Bonds), AS Rietumu Banka as a lender and its affiliated company RB ELG SIA as an equity investor on the restructuring of ELG and its Bonds, under which the Bonds are to be repaid with EUR 21 million in cash and the remaining nominal amount of EUR 19 million of the Bonds plus accrued and unpaid interest to be written down to zero.

In May 2021, the proposed restructuring was also approved by the holders of the Bonds through a written procedure in accordance with the Terms and Conditions and closed subsequently on 29 June 2021 as the First Closing with the repayment of the Bonds made on 7 July 2021 and on 2 July 2021 as the Second Closing. The restructuring included the following:

- the equity investor acquired 30% of shares in SIA European Lingerie Group (SIA ELG), a subsidiary of European Lingerie Group AB (ELG AB), and certain receivables of ELG AB from ELG SIA for the total purchase price of EUR 4.5 million;
- the lender provided a loan to the Group of EUR 22.5 million. The loan has been secured by an extensive security package over the SIA ELG group's assets (including real estates, assets, machinery, shares, trademarks, receivables, etc);
- the proceeds from the loan and the equity investment amounted to in total EUR 27 million. EUR 21 million was used to repay the Bonds, EUR 2 million was used to refinance a bank loan issued to the ELG group's German subsidiary and the remainder of the proceeds is be used for working capital needs and transaction costs.

To repay the bank loan, the Group will use the cash flow earned from its operating activities. Based on the forecast prepared by the management, the Group plans to obtain sufficient funds and will be able to pay for its liabilities within the specified payment terms.

Impairment of goodwill and intangible assets with indefinite useful lives

As CGUs were affected by lockdown restrictions imposed by the governments in countries of operations, COVID-19 has significant impact on CGUs recoverable amount estimation, in particular assumptions made for future cash flows. The management reviewed the main assumptions used for the measurement of the recoverable amount of its CGUs. Results of impairment are disclosed in Note 18.

4.2 Deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. In respect of the tax losses on which deferred tax assets are recognised, management continues to consider it probable that future taxable profits will be available against which the tax losses can be recovered and, therefore, the related deferred tax asset can be realised. The respective assumption is based on the fact that these companies are profitable currently and no conditions exist at the moment to doubt their future revenue, cost and profitability levels. Further details on taxes are disclosed in Note 15.

4.3 Measurement of ECL allowance for trade receivables and contract assets

The Group developed a provision matrix to measure ECLs of trade and other receivables and contract assets for collectively assessed customers. Loss rates in the matrix were developed based on historic credit loss experience, economic conditions in the period over which historic data was collected, current economic conditions and managements view of economic conditions over the expected lives of the receivables. The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 31 (ii).

4.4 Impairment test of goodwill and intangible assets with indefinite useful lives

Impairment exists when the carrying value of a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a DCF model. The cash flows are derived from the forecast for the next five years. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 18.

4.5 Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease for some leases, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions). The Group estimates the IBR using a weighted rate as follows: 80% multiplied by the rate of secured borrowing, which is the rate of the Parent's secured bonds, add 20% multiplied by the rate for general borrowings, which is unsecured bank overdraft individual for each CGU.

4.6 Measurement of fair values of financial instruments

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair values have been determined for disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Financial assets at amortised cost

The fair value of financial assets at amortised cost is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest for similar liabilities at the measurement date.

5. Standards and amendments issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

(i) Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed the impact of the standard and concluded that it is not expected to have impact on the Group's consolidated financial statements as the carrying amount of the Group's investment in the joint venture is zero.

(ii) IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these amendments.

(iii) IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these amendments.

(iv) Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The Group has not yet evaluated the impact of the implementation of these amendments.

(v) IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these amendments.

(vi) IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these amendments.

6. New standards and amendments adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020.

(i) Amendments to IFRS 3 Business Combinations: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

(ii) Conceptual Framework in IFRS standards

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

(iii) Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

(iv) IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

(v) Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. During 2020 the Group received COVID-19 related rent concessions from some of its lessors. The Group elected not to adopt the amendment but rather apply IFRS 16 in assessing whether rent concessions agreed upon with a lessor meet the definition of a lease modification.

7. Operating 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 Management Board reviews the internal management reports of each division at least quarterly.

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).

2020 *In thousands of EUR*	**Textiles**	**Lingerie**	**Total segments**	**Unallocated**	**Consolida-tion adjust-ments**	**Total**
External revenues	31,301	31,983	63,284	-	-	63,284
Intersegment revenue	1,288	-	1,288	-	(1,288)	-
Total revenue	**32,589**	**31,983**	**64,572**	**-**	**(1,288)**	**63,284**
Other operating income	1,709	1,962	3,671	967	(1,008)	3,630
Changes in inventories of finished goods and work in progress	1,102	(895)	207	-	-	207
Raw materials and services	(16,681)	(10,562)	(27,243)	-	1,425	(25,818)
Employee benefits expense	(8,099)	(15,169)	(23,268)	(766)	-	(24,034)
Depreciation, amortisation and impairment of intangible assets	(1,491)	(2,518)	(4,009)	(2)	-	(4,011)
(Impairment loss)/reversal of impairment loss on trade and other receivables	140	(272)	(132)	(138)	-	(270)
Other operating expenses	(6,547)	(10,228)	(16,775)	(1,876)	953	(17,698)
Operating profit	**2,722**	**(5,699)**	**(2,977)**	**(1,815)**	**82**	**(4,710)**
Interest income	83	241	324	420	(694)	50
Other finance income	902	1,158	2,060	4	-	2,064
Interest expense	(241)	(719)	(960)	(4,094)	701	(4,353)
Other finance costs	(792)	(1,216)	(2,008)	(15)	-	(2,023)
Income tax	(535)	(1,047)	(1,582)	37	-	(1,545)
Net profit	**2,139**	**(7,282)**	**(5,143)**	**(5,463)**	**89**	**(10,517)**
Operating profit	2,722	(5,699)	(2,977)	(1,815)	82	(4,710)
Depreciation, amortisation and impairment of intangible assets	1,491	2,518	4,009	2	-	4,011
EBITDA	**4,213**	**(3,181)**	**1,032**	**(1,813)**	**82**	**(699)**
Segment assets	25,804	38,001	63,805	461	(1)	64,265
Segment liabilities	8,811	24,280	33,091	38,636	(1)	71,726
Capital expenditure	138	488	626	-	-	626
Number of employees at reporting date	478	591	1,069	6	-	1,075

2019 *In thousands of EUR*	**Textiles**	**Lingerie**	**Total segments**	**Unallocated**	**Consolida-tion adjust-ments**	**Total**
External revenues	32,995	44,559	77,554	-	-	77,554
Intersegment revenue	1,177	-	1,177	-	(1,177)	-
Total revenue	**34,172**	**44,559**	**78,731**	**-**	**(1,177)**	**77,554**
Other operating income	806	761	1,567	23,383	(22,519)	2,431
Changes in inventories of finished goods and work in progress	744	1,075	1,819	-	-	1,819
Raw materials and services	(14,954)	(16,075)	(31,029)	-	1,414	(29,615)
Employee benefits expense	(9,141)	(16,342)	(25,483)	(606)	-	(26,089)
Depreciation, amortisation and impairment of intangible assets	(1,563)	(2,384)	(3,947)	(2)	(182)	(4,131)
(Impairment loss)/reversal of impairment loss on trade and other receivables	421	(107)	314	(120)	-	194
Other operating expenses	(6,336)	(11,299)	(17,635)	(1,126)	651	(18,110)
Operating profit	**4,149**	**188**	**4,337**	**21,529**	**(21,813)**	**4,053**
Interest income	44	255	299	295	(543)	51
Other finance income	182	212	394	10	-	404
Interest expense	(261)	(617)	(878)	(3,813)	539	(4,152)
Other finance costs	(87)	(364)	(451)	(4)	-	(455)
Income tax	(65)	(43)	(108)	(13)	-	(121)
Net profit	**3,962**	**(369)**	**3,593**	**18,004**	**(21,817)**	**(220)**
Operating profit	4,149	188	4,337	21,529	(21,813)	4,053
Depreciation, amortisation and impairment of intangible assets	1,563	2,384	3,947	2	182	4,131
EBITDA	**5,712**	**2,572**	**8,284**	**21,531**	**(21,631)**	**8,184**
Segment assets	27,298	42,591	69,889	497	-	70,386
Segment liabilities	8,370	18,207	26,577	39,557	-	66,134
Capital expenditure	2,345	575	2,920	1	-	2,921
Number of employees at reporting date	503	775	1,278	7	-	1,285

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. For information on segment revenue by geographic location of customers refer to Note 8 (ii).

Non-current non-financial assets

In thousands of EUR	2020	2019
Germany	10,874	10,540
Latvia	7,719	8,923
France	5,558	5,959
Hungary	2,121	2,569
Russia	980	981
Poland	962	882
Other countries	77	91
Total	**28,291**	**29,945**

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

8. Revenue

(i) Revenue streams

The Group generates revenue primarily from the sale of textiles and lingerie products (see Note 7). 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	2020	2019
Sales of goods, wholesale	53,434	67,737
Sales of goods, retail	7,027	8,713
Rendering of services	2,676	873
Sales commissions	91	121
License income	56	110
Total revenue from contracts with customers	**63,284**	**77,554**

(ii) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical markets. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 7).

	2020		
In thousands of EUR	Textiles	Lingerie	Total
Germany	1,811	10,082	11,893
Baltic states	11,655	38	11,693
France	748	7,773	8,521
Russia	4,554	2,668	7,222
Belarus	4,404	9	4,413
Poland	1,909	1,338	3,247
The Netherlands	34	2,669	2,703
Morocco	1,599	-	1,599
Italy	560	755	1,315
Ukraine	981	316	1,297
Belgium, Luxemburg	145	933	1,078
Switzerland, Liechtenstein	-	936	936
Spain	24	584	608
Austria	200	356	556
Sweden	121	129	250
Other countries	2,556	3,397	5,953
External revenue as reported in Note 7	**31,301**	**31,983**	**63,284**

	2019		
In thousands of EUR	Textiles	Lingerie	Total
Germany	2,744	14,486	17,230
Baltic states	8,851	172	9,023
France	864	5,726	6,590
Russia	5,875	5,013	10,888
Belarus	5,158	13	5,171
Poland	1,929	2,316	4,245
The Netherlands	56	3,675	3,731
Morocco	2,376	-	2,376
Italy	169	1,702	1,871
Ukraine	1,368	177	1,545
Belgium, Luxemburg	102	1,261	1,363
Switzerland, Liechtenstein	-	1,116	1,116
Spain	96	3,523	3,619
Austria	384	575	959
Sweden	109	147	256
Other countries	2,913	4,658	7,571
External revenue as reported in Note 7	**32,994**	**44,560**	**77,554**

The Group has a diversified clientele and none of the customers have a share exceeding 10% of total revenue.

(iii) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

In thousands of EUR	Note	31 December 2020	31 December 2019
Gross trade receivables which are included in "trade and other receivables"	*21*	11,650	15,564
Contract assets		26	29
Contract liabilities		320	192

The contract assets primarily relate to the Group's rights to consideration for services provided but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities relate to unused gift cards and advance payments received from customers. As at 31 December 2020, the amount of unused gift cards was EUR 13 thousand (31 December 2019: EUR 6 thousand). This will be recognised as revenue when gift cards are used by customers but not later than validity of those cards expires (which is one year). Advance payments will be recognised as revenue during 2019 when respective customer orders are fulfilled.

9. Other operating income

In thousands of EUR	Note	2020	2019
Government grants		2,649	226
Rental income from property leases		621	561
Proceeds from bad debts previously written off		52	21
Income from sale of non-core materials		36	71
Gain on termination of lease agreement		24	1
Gain on disposal of property, plant and equipment		3	56
Income related to share-based payment arrangements	*37*	-	666
Gain on disposal of subsidiary	*33*	-	217
Gain on bargain purchase	*32*	-	22
Other income from non-core activities		245	590
Total		**3,630**	**2,431**

10. Raw materials and services

In thousands of EUR	2020	2019
Raw materials and consumables	21,161	24,415
Purchases of lingerie garments from third parties	3,791	3,793
External services	563	1,407
Raw materials and consumables purchases from related parties	303	-
Total	**25,818**	**29,615**

11. Employee benefits expense

In thousands of EUR	2020	2019
Wages and salaries	16,917	20,777
Social security contributions	4,174	4,486
Expenses related to post-employment defined benefit plans	7	7
Other employee benefits	2, 936	819
Total	**24,034**	**26,089**

As of 31 December 2020, the Group employed 1,075 employees (31 December 2019: 1,285 employees), including 804 women (31 December 2019: 993 women). The Board of Directors consisted of 3 board members, all of whom are men. The Group's executive management consisted of 3 people, including 2 women. Average number of employees was 1,180 during the reporting period (2019: 1,282).

Remuneration and other benefits for the reporting period of the Board of Directors was as follows:

In thousands of EUR	Remu-neration	Social security costs	Total
Indrek Rahumaa	59	19	78
Dmitry Ditchkovsky	35	-	35
Total	**94**	**19**	**113**

Remuneration and other benefits of the Board of Directors for the year ended 31 December 2019 was as follows:

In thousands of EUR	Remu-neration	Social security costs	Total
Indrek Rahumaa	64	20	84
Dmitry Ditchkovsky	35	-	35
Fredrik Synnerstad	8	3	11
Total	**107**	**23**	**130**

During the reporting period, amount of expenses related to executive management remuneration including CEO was EUR 1,092 thousand including social security costs of EUR 202 thousand (2019:

EUR 453 thousand and EUR 50 thousand respectively).

12. Other operating expenses

In thousands of EUR	*Note*	2020	2019
Change in write downs to net realizable value for obsolete and slow-moving inventories		3,370	919
Professional services		3,123	1,561
Sales and marketing		2,908	4,482
Utilities		2,373	2,928
Storage, transportation and packaging		2,012	1,643
Repair and maintenance		728	868
IT and communication		628	681
Bank services		362	389
Travel expenses		240	689
Insurance		232	230
Expense relating to short-term leases	*34*	225	325
Other taxes		218	276
Car park related costs		62	125
Loss on disposal of property, plant and equipment and intangible assets		58	127
Real estate tax		40	40
Expenses related to share-based payment arrangements	*37*	-	52
Other operating expenses		1,119	2,775
Total		**17,698**	**18,110**

Auditors fees included into professional services were as follows:

In thousands of EUR	2020	2019
Ernst & Young:		
Audit	187	190
Other:		
Audit	34	12
Other assignments	79	22
Total	**300**	**224**

13. Finance income

In thousands of EUR	2020	2019
Interest income under the effective interest method on:	50	51
Foreign exchange gains	2,064	404
Total	**2,114**	**455**

14. Finance costs

In thousands of EUR	2020	2019
Interest expense on financial liabilities measured at amortised cost	4,353	4,152
Foreign exchange losses	1,997	379
Interest expense on net defined benefit liability	21	57
Fines and penalties	5	19
Total	**6,376**	**4,607**

EUR 4,353 thousand of interest expense in the reporting period consist of EUR 3,727 thousand of interest expense on loans and borrowings, EUR 624 thousand of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value and EUR 2 thousand of interest expenses related to trade and other payables.

EUR 4,152 thousand of interest expense for the year ended 31 December 2019 consist of EUR 3,585 thousand of interest expense on loans and borrowings, EUR 567 thousand of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value.

15. Income tax expense

The major components of income tax expense for the period ended 31 December are:

In thousands of EUR	2020	2019
Current tax expense	**207**	**484**
Current year	230	434
Changes in estimates related to prior years	(23)	50
Deferred tax expense	**1,338**	**(363)**
Derecognition of previously recognised tax losses	1,117	-
Derecognition of previously recognised deductible temporary differences	284	-
Origination and reversal of temporary differences	(63)	(362)
Reduction in tax rate	-	(1)
Income tax expense reported in profit or loss	**1,545**	**121**

During 2020, Felina GmbH derecognised previously recognised deferred tax asset on tax losses and deductible temporary differences as management assessed it it uncertain whether future taxable profit would be available against which the benefits could be used.

Amounts recognised in OCI during reporting period are as follows:

In thousands of EUR	2020 Before tax	2020 Tax expense	2020 Net of tax
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability	(111)	(93)	(204)
	(111)	**(93)**	**(204)**

In thousands of EUR	2019 Before tax	2019 Tax expense	2019 Net of tax
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability	227	(70)	157
	227	**(70)**	**157**

EUR 93 thousand of tax expense recognised in OCI in 2020 totally relates to the derecognition of previously recognised deferred tax asset on deductible temporary differences related to remeasurement of defined benefit liability.

Reconciliation between tax expense and the product of accounting profit multiplied by the Parent's domestic tax rate of 21.4% for the period ended 31 December 2020 is as follows (2019: 21.4%):

In thousands of EUR	2020	2019
Profit/(loss) before tax	**(8,972)**	**(99)**
Tax using the Parent's domestic tax rate	(1,920)	(21)
Tax effect of:		
Derecognition of previously recognised deductible temporary differences	284	-
Non-deductible expenses	200	1,326
Net loss of Latvian subsidiaries which may not be utilised in future periods and for which no deferred tax is recognised	195	13
Effect of tax rates in foreign jurisdictions	(752)	(206)
Tax-exempt income	(684)	(763)
Changes in estimates related to prior years	(23)	50
Tax incentives	-	(809)
Other differences	(10)	32
Change in unrecognised deferred tax	4,255	499
Income tax expense reported in profit or loss	**1,545**	**121**

According to the Latvian Law on Corporate Income Tax effective from 1 January 2018 taxable base includes distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, etc). According to the law net loss generated by Latvian subsidiaries in the reporting period may not be utilised in future periods to decrease taxable profit and deferred tax asset is not recognised by the Group as a result.

Effect of tax rates in foreign jurisdictions was mainly a result of higher corporate income tax rate of German subsidiaries (29.125%-30.88%) compared to the Parent's domestic tax rate of 21.4% (2019: 21.4%).

Movements in deferred tax balances are as follows:

2020					**Balance at 31 December**		
In thousands of EUR	**Net balance at 1 January**	**Recognised in profit or loss**	**Recognised in OCI**	**Effect of movements in exchange rates**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	(130)	22	-	9	(99)	13	(112)
Right-of-use assets	(808)	35	-	11	(762)	-	(762)
Intangible assets	(2,339)	143	-	-	(2,196)	-	(2,196)
Inventories	(3)	207	-	(1)	203	255	(52)
Loans and other receivables, including contract assets	258	(118)	-	(6)	134	143	(9)
Employee benefits	439	(346)	(93)	-	-	-	-
Provisions	39	(17)	-	-	22	22	-
Loans and other payables	673	143	-	(12)	804	835	(31)
Deferred income	-	11	-	-	11	11	-
Tax losses carried forward	4,423	3,244	-	(5)	7,662	7,662	-
Unrecognised tax losses	(3,117)	(4,255)	-	-	(7,372)	(7,372)	-
Latvian subsidiaries profit for distribution	(492)	(407)	-	-	(899)	-	(899)
Tax assets (liabilities) before set-off	**(1,057)**	**(1,338)**	**(93)**	**(4)**	**(2,492)**	**1,569**	**(4,061)**
Set-off of tax	**-**	**-**	**-**	**-**	**-**	**(860)**	**860**
Net tax assets (liabilities)	**(1,057)**	**(1338)**	**(93)**	**(4)**	**(2,492)**	**709**	**(3,201)**

2019					Balance at 31 December		
In thousands of EUR	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Effect of movements in exchange rates	Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	(166)	33	-	3	(130)	13	(143)
Right-of-use assets	-	(806)	-	(2)	(808)	-	(808)
Intangible assets	(2,510)	171	-	-	(2,339)	-	(2,339)
Inventories	(31)	26	-	2	(3)	74	(77)
Loans and other receivables, including contract assets	72	185	-	1	258	266	(8)
Employee benefits	463	46	(70)	-	439	439	-
Provisions	38	1	-	-	39	39	-
Loans and other payables	(45)	716	-	2	673	838	(165)
Tax losses carried forward	4,132	291	-	-	4,423	4,423	-
Unrecognised tax losses	(2,618)	(499)	-	-	(3,117)	(3,117)	-
Latvian subsidiaries profit for distribution	(691)	199	-	-	(492)	-	(492)
Tax assets (liabilities) before set-off	**(1,356)**	**363**	**(70)**	**6**	**(1,057)**	**2,975**	**(4,032)**
Set-off of tax	**-**	**-**	**-**	**-**	**-**	**(1,049)**	**1,049**
Net tax assets (liabilities)	**(1,356)**	**363**	**(70)**	**6**	**(1,057)**	**1,926**	**(2,983)**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Tax losses for which deferred tax asset was recognised expire as follows:

Corporate tax

In thousands of EUR	31 December 2020	Expiry period
Expire	2	2023
Never expire	872	-
Total	**874**	**-**

In thousands of EUR	31 December 2019	Expiry period
Expire	154	2023-2028
Never expire	4,365	-
Total	**4,519**	**-**

Trade tax

In thousands of EUR	31 December 2020	Expiry period
Expire	-	-
Never expire	-	-
Total	**-**	**-**

In thousands of EUR	31 December 2019	Expiry period
Expire	-	-
Never expire	3,724	-
Total	**3,724**	**-**

The income tax in Germany is made up of corporation tax and trade tax, which is a local municipal income tax in Germany. Corporation tax (included into corporate tax) and trade tax are presented separately in the financial statements as they are applied to different tax bases and calculated at different rates.

No deferred tax asset was recognised by loss-making companies (in particular Felina GmbH derecognised previously recognised deferred tax asset on accumulated tax losses), as it was not probable that future taxable profit will be available against which they can use the benefits therefrom. Deferred tax assets have not been recognised in respect of the following items:

Corporate tax

	31 December 2020	
In thousands of EUR	Gross amount	Tax effect
Tax losses	28,168	5,239

	31 December 2019	
In thousands of EUR	Gross amount	Tax effect
Tax losses	13,115	2,619

Under current tax legislation tax losses for which no deferred tax asset was recognised expire as follows:

In thousands of EUR	31 December 2020	Expiry period
Expire	2,676	2022-2032
Never expire	25,492	-
Total	**28,168**	-

In thousands of EUR	31 December 2019	Expiry period
Expire	1,567	2022-2031
Never expire	11,548	-
Total	**13,115**	-

Trade tax

	31 December 2020	
In thousands of EUR	Gross amount	Tax effect
Tax losses	14,198	2,133

	31 December 2019	
In thousands of EUR	Gross amount	Tax effect
Tax losses	4,285	498

Tax losses for which no deferred tax asset was recognised expire as follows:

In thousands of EUR	31 December 2020	Expiry period
Expire	-	-
Never expire	14,198	-
Total	**14,198**	-

In thousands of EUR	31 December 2019	Expiry period
Expire	-	-
Never expire	4,285	-
Total	**4,285**	-

Tax losses for which no deferred tax was recognised have arisen in companies that have been loss making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

16. Property, plant and equipment

In thousands of EUR	*Note*	Land and buildings	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment under construction	Total
Cost						
Opening balance at 1 January 2019		9,804	20,846	5,195	613	36,458
Acquisitions through business combinations	*32*	-	2	2	-	4
Additions		-	2,008	221	330	2,559
Transfers		68	769	9	(846)	-
Transfers to right-of-use assets	*17*	-	(83)	(76)	-	(159)
Disposals		-	(1,425)	(42)	(7)	(1,474)
Effect of movements in exchange rates		(64)	(21)	3	1	(81)
At 31 December 2019		**9,808**	**22,096**	**5,312**	**91**	**37,307**
Additions		13	34	63	75	185
Disposals		-	(26)	(87)	-	(113)
Effect of movements in exchange rates		(198)	(80)	(23)	(1)	(302)
At 31 December 2020		**9,623**	**22,024**	**5,265**	**165**	**37,077**
Accumulated depreciation						
Opening balance at 1 January 2019		2,504	18,464	3,645	-	24,613
Transfers to right-of-use assets	*17*	413	1,009	416	-	1,838
Depreciation		-	(17)	(24)	-	(41)
Disposals		-	(127)	(31)	-	(158)
Effect of movements in exchange rates		(5)	(8)	2	-	(11)
At 31 December 2019		**2,912**	**19,321**	**4,008**	**-**	**26,241**
Depreciation		404	658	353	-	1,415
Disposals		-	-	(45)	-	(45)
Effect of movements in exchange rates		(21)	(35)	(11)	-	(67)
At 31 December 2020		**3,295**	**19,944**	**4,305**	**-**	**27,544**
Carrying amounts						
At 31 December 2019		6,896	2,775	1,304	91	11,066
At 31 December 2020		**6,328**	**2,080**	**960**	**165**	**9,533**

Property, plant and equipment acquired through business combinations were recorded at fair value by the Group at the time of acquisition, while assets acquired under common control transactions were recorded at their carrying amounts made up by cost and accumulated depreciation at acquisition date.

Pledged assets

The carrying amount of property, plant and equipment pledged as collateral under bonds and bank loan agreements amounted to EUR 6,799 thousand at 31 December 2020 (31 December 2019: EUR 7,865 thousand). For more details on pledged property, plant and equipment refer to Note 28 of these financial statements.

17. Right-of-use assets

In thousands of EUR	*Note*	Land & Buildings	Machinery & equipment	Other property, plant and equipment	Total
Cost					
Opening balance at 31 December 2018		-	-	-	-
Recognition on initial application of IFRS 16		4,675	67	186	4,928
Transfers from property, plant and equipment	*16*	-	83	76	159
Opening balance at 1 January 2019		**4,675**	**150**	**262**	**5,087**
Acquisitions through business combinations	*32*	53	-	-	53
Additions		120	1,200	37	1,357
Remeasurements		(33)	-	-	(33)
Disposals		(743)	-	(8)	(751)
Effect of movements in exchange rates		15	-	-	15
At 31 December 2019		**4,087**	**1,350**	**291**	**5,728**
Additions		175	40	37	252
Remeasurements		1,685	304	-	1,989
Disposals		(185)	-	(5)	(190)
Effect of movements in exchange rates		(72)	-	(11)	(83)
At 31 December 2020		**5,690**	**1,694**	**312**	**7,696**
Accumulated depreciation					
Opening balance at 31 December 2018		-	-	-	-
Transfers from property, plant and equipment	*16*	-	17	24	41
Opening balance at 1 January 2019		**-**	**17**	**24**	**41**
Depreciation	*34*	1,236	72	78	1,386
Disposals		(7)	-	(1)	(8)
Effect of movements in exchange rates		3	-	-	3
At 31 December 2019		**1,232**	**89**	**101**	**1,422**
Depreciation	*34*	1,197	360	101	1,658
Disposals		(64)	-	(5)	(69)
Effect of movements in exchange rates		(21)	1	(4)	(24)
At 31 December 2020		**2,344**	**450**	**193**	**2,987**
Carrying amounts					
At 31 December 2019		2,855	1,261	190	4,306
At 31 December 2020		**3,346**	**1,244**	**119**	**4,709**

Remeasurement of land and buildings, machinery and equipment in 2020 amounted to EUR 1,685 thousand and EUR 304 thousand respectively and related to the extension of lease terms for leased assets. Remeasurement of land and buildings in 2019 amounted to EUR -33 thousand which was a result of discounts obtained by Felina Polska SP. z o.o. for its leases of office and retail stores. 2020 disposals in the net amount of EUR 121 thousand related to stores closure by Brigitte Wäschevertriebs GmbH and Felina Polska SP. z o.o. and cancellation of office rental by Felina France S.a r.l. after COVID-19 lockdowns and transfer of employees to home office. 2019 disposals in the net amount of EUR 736 thousand were mainly attributable to the termination of the office lease agreement by Felina GmbH.

18. Intangible assets

In thousands of EUR	*Note*	Goodwill	Brand names	Customer relations	Software	Order backlog	Total
Cost							
Opening balance at 1 January 2019		6,937	5,987	2,115	1,086	219	16,344
Additions		-	-	-	362	-	362
Disposals		-	-	-	(17)	-	(17)
Disposals as a result of subsidiary disposal	*33*	-	-	-	(76)	-	(76)
At 31 December 2019		**6,937**	**5,987**	**2,115**	**1,355**	**219**	**16,613**
Additions		-	-	-	441	-	441
Disposals		-	-	-	(141)	-	(141)
Effect of movements in exchange rates		-	-	-	(15)	-	(15)
At 31 December 2020		**6,937**	**5,987**	**2,115**	**1,640**	**219**	**16,898**
Accumulated amortization							
Opening balance at 1 January 2019		-	-	401	517	219	1,137
Amortisation		-	-	423	302	-	725
Disposals		-	-	-	(6)	-	(6)
Impairment loss		182	-	-	-	-	182
Effect of movements in exchange rates		-	-	-	2	-	2
At 31 December 2019		**182**	**-**	**824**	**815**	**219**	**2,040**
Amortisation		-	-	423	294	-	717
Disposals		-	-	-	(122)	-	(122)
Impairment loss		221	-	-	-	-	221
Effect of movements in exchange rates		-	-	-	(7)	-	(7)
At 31 December 2020		**403**	**-**	**1,247**	**980**	**219**	**2,849**
Carrying amounts							
At 31 December 2019		6,755	5,987	1,291	540	-	14,573
At 31 December 2020		**6,534**	**5,987**	**868**	**660**	**-**	**14,049**

Pledged assets

The carrying amount of intangible assets pledged as collateral under bank loan agreements amounted to EUR 4,310 thousand at 31 December 2020 (31 December 2019: EUR 6,803 thousand). For more details on pledged intangible assets refer to Note 28 of these financial statements.

Impairment test

Goodwill and brand names were tested for impairment as at 31 December 2020. For the purpose of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) as follows:

In thousands of EUR	2020	2019
Felina International AG Group (lingerie segment)	3,636	3,636
Dessus-Dessous S.A.S (lingerie segment)	2,322	2,322
AO Avangard (textiles segment)	979	979
Total goodwill	**6,937**	**6,937**

Brand names have been allocated to the Group's CGUs as follows:

In thousands of EUR	2020	2019
Felina International AG Group (lingerie segment)	4,225	4,225
Dessus-Dessous S.A.S (lingerie segment)	1,762	1,762
Total brand names	**5,987**	**5,987**

The recoverable amount of all three CGUs was based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGUs.

The key assumptions used in the estimation of values in use were as follows:

	Felina International AG Group	AO Avangard	Dessus-Dessous S.A.S
Discount rate	10.68%	13.5%	10.3%
Terminal value growth rate	1.5%	2.0%	2.5%
Revenue growth rate (average of next five years)	11.0%	4.8%	8.3%
Operating profit margin (average of next five years)	4.9%	13.2%	3.3%

The discount rate calculation was determined on the basis of the weighted average cost of capital (WACC). WACC takes into consideration both debt and equity. The cost of debt is a required rate of return on debt. The cost of equity derives from the expected return to investors. The discount rate was determined after taxes.

Cash flows were based on management's forecast of the development of the CGUs' business over the next five years. Cash flows after the forecast period approved by management were extrapolated using a steady 1.5% growth factor for Felina International AG Group, 2.5% for Dessus-Dessous S.A.S and 2.0% for AO Avangard.

Forecasted operating profit of Felina International AG Group was estimated based on past trends and experience, adjusted as follows:

- Revenue growth was projected taking into account the estimated sales volume and price growth for the next five years. It was assumed that the sales volume would increase by 11.4% on average in the next five years while the sales price would almost remain at the same level.
- Operating profit margin was projected to remain at the level of pre-COVID years adjusted for savings as a result of restructuring measures implemented by the Group during 2020 and to be implemented during 2021.

Forecasted operating profit of AO Avangard was estimated based on past trends and experience, adjusted as follows:

- Revenue growth was projected taking into account the estimated sales volume and price growth for the next five years. It was assumed that the sales volume would increase by 3.8% on average in the next five years while the sales price would increase by 1.0% on average.
- operating profit margin was projected to remain at the level of recent years with operating expenses adjusted for the forecasted inflation over the next five years.

Forecasted operating profit of Dessus-Dessous S.A.S was estimated based on past trends and experience, adjusted as follows:

- Revenue growth was projected taking into account the estimated sales volume and price growth for the next five years. It was assumed that the sales volume would increase by 7.2% on average in the next five years while the sales price would increase by 1.0% on average.
- Operating profit margin was projected to be increasing gradually as compared to the recent years as a result of higher sales and fixed costs staying at the level of previous years adjusted for forecasted inflation.

As the result of the impairment test carried out, the estimated recoverable amount for Felina International AG Group was below its carrying amount by EUR 221 thousand. The impairment loss of EUR 221 thousand was recognised and fully allocated to goodwill and included in 'Depreciation, amortisation and impairment of intangible assets'. Estimated recoverable amount of Dessus-Dessous S.A.S and AO Avangard exceeded their carrying amount. Management has identified that no possible change in key variables used in the calculation would lead to the need to recognise impairment for Dessus-Dessous S.A.S and AO Avangard. For the estimated recoverable amount of Dessus-Dessous S.A.S and AO Avangard to be equal to their carrying amount, each key assumption individually should reach the following values (assuming other assumptions remain unchanged):

	Dessus-Dessous S.A.S	AO Avangard
Discount rate	10.8%	27.7%
Revenue growth/ (decline) rate (average of next five years)	8.2%	3.4%
Operating profit margin (average of next five years)	3.0%	7.3%

19. Equity accounted investees

The group held a 50% share in Tele Textile Latvia SIA at 31 December 2020, which was acquired in common control transaction as part of SIA European Lingerie Group acquisition. Tele Textile Latvia SIA does not qualify to be a subsidiary as none of the shareholders have majority votes in the Company and the control is shared equally.

Tele Textile Latvia SIA does not qualify for joint operation as it is structured as a separate vehicle and the Group has joint control of the arrangement and a residual interest in the net assets of Tele Textile Latvia SIA. The Group is liable to Tele Textile Latvia SIA and its liabilities only to the extent of its investment in Tele Textile Latvia SIA. Shareholders have not taken on any additional commitments to compensate any losses or to make any additional contributions to the joint venture. Accordingly, the Group has classified its interest in Tele Textile Latvia SIA as a joint venture. The following table summarises statement of financial position and profit or loss information of Tele Textile Latvia SIA as included in its own financial statements prepared in accordance with Latvian accounting standards.

In thousands of EUR	**31 December 2020**	**31 December 2019**
Percentage ownership interest	50%	50%
Non-current assets	553	657
Current assets	515	698
Non-current liabilities	-	(1,664)
Current liabilities	(1,711)	(395)
Net assets	(643)	(704)
Group's share of net assets	**(322)**	**(352)**
Carrying amount of interest in joint venture	**-**	**-**

	2020	**2019**
Revenue	1,124	1,381
Profit / (loss) for the year	61	(104)
Total comprehensive income	61	(104)
Group's share of profit / (loss)	**31**	**(52)**

The Group did not recognise its share of profit or loss of Tele Textile Latvia SIA during the reporting period since Group's share of net assets was still negative while the carrying amount of interest was zero.

The Group did not receive dividends from the equity accounted investee during the reported period.

20. Inventories

In thousands of EUR	**2020**	**2019**
Raw materials and consumables	10,137	6,691
Work in progress	5,011	1,803
Finished goods	1,269	11,851
Right to recover returned goods	356	126
Total	**16,773**	**20,471**

EUR 25,255 thousand was recognised as an expense during the reporting period and included in 'raw materials and services' (2019: EUR 28,208 thousand).

Movement in write downs of inventories:

In thousands of EUR	**2020**	**2019**
Cumulative write downs at 1 January	**1,082**	**679**
Write downs recognised	3,370	933
Write downs utilised	(1,102)	(516)
Write downs released	-	(14)
Cumulative write downs at 31 December	**3,350**	**1,082**

The carrying amount of inventories pledged as collateral under bank loan agreements amounted to EUR 7,879 thousand at 31 December 2020 (31 December 2019: EUR 8,869 thousand). For more details on pledged inventories refer to Note 28 of these financial statements.

21. Trade and other receivables

See accounting policies in Notes 3.14 (i) - (ii) and 3.16 (i).

In thousands of EUR	2020	2019
Financial trade and other receivables		
Trade receivables	10,884	14,941
Loans to related parties	812	819
Trade receivables due from related parties	766	623
Other receivables	635	429
Other receivables due from related parties	383	431
Allowance for trade and other receivables	(1,031)	(1,065)
Allowance for trade and other receivables due from related parties	(1,062)	(737)
Allowance for loans to related parties	(12)	(102)
	11,375	**15,339**
Non-financial trade and other receivables		
VAT receivable	228	189
Social contributions receivable	58	2
Other taxes receivable	5	6
Other assets	69	35
	360	**232**
Total	**11,735**	**15,571**
Non-current	651	717
Current	11,084	14,854
Total	**11,735**	**15,571**

As at 31 December 2020 and 31 December 2019 trade receivables in the gross amount of EUR 10,884 thousand and EUR 14,941 thousand respectively mostly comprise receivables for goods sold. For more details on the composition of trade receivables refer to Note 31.

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 28).

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

In thousands of EUR	2020	2019
Carrying amount of trade receivables transferred to a factoring company	90	720
Carrying amount of associated liabilities	77	698

Trade and other receivables for the amount of EUR 8,314 were pledged as collateral under bank loan agreements as at 31 December 2020 (31 December 2019: EUR 7,174 thousand). For more details on pledged trade and other receivables refer to Note 28 of these financial statements.

For terms and conditions relating to related party receivables, refer to Note 36.

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 31.

22. Cash and cash equivalents

In thousands of EUR	2020	2019
Cash on hand	43	56
Bank balances	5,834	1,272
Cash in transit	38	37
Cash and cash equivalents	**5,915**	**1,365**

Cash and cash equivalents reported in the statement of cash flows are the same as in the statement of financial position.

The carrying amount of cash and cash equivalents pledged as collateral under bank loan agreements amounted to EUR 1,164 thousand as at 31 December 2020 (31 December 2019: EUR 78 thousand) (refer to Note 28).

23. Capital and reserves

Share capital

Number of shares	2020	2019
Opening balance	60,000	60,000
Issued for cash	-	-
In issue at 31 December – fully paid	**60,000**	**60,000**
Nominal value of one share, EUR	1	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

As at 31 December 2020 reserves include translation reserve in the amount of EUR -1,208 thousand which comprises all foreign currency differences arising from the translation of the financial statements of foreign operations (31 December 2019: EUR -216 thousand).

Dividends

There were no dividends paid by the Group during the year (2019: none).

No dividends were proposed by the Board of Directors after the reporting date.

24. Going concern

Net loss of the Group for the period ended 31 December 2020 amounted to EUR 10,517 thousand.

Management is confident that the Group is a going concern. According to the business plan, the Group is expected to be profit making.

Net loss was a result of extraordinary costs during 2020 described in Note 25. Additional reason for net loss was interest expense related to the amortization of transaction costs on bonds issue in the amount of EUR 624 thousand.

Negative impact of COVID-19 outbreak is expected to be temporary and the drop in revenue and profitability during 2020 is expected to be reversed gradually during 2021-2022.

The ability to continue as a going concern also depended on the completion of the bond restructuring process of the group, which was successfully signed in April 2021 and closed in June 2021. The restructuring included the following:

- the equity investor acquired 30% of shares in SIA European Lingerie Group (SIA ELG), a subsidiary of European Lingerie Group AB (ELG AB), and certain receivables of ELG AB from ELG SIA for the total purchase price of EUR 4.5 million;
- the lender provided a loan to the Group of EUR 22.5 million. The loan has been secured by an extensive security package over the SIA ELG group's assets (including real estates, assets, machinery, shares, trademarks, receivables, etc);
- the proceeds from the loan and the equity investment amounted to in total EUR 27 million. EUR 21 million was used to repay the Bonds, EUR 2 million was used to refinance a bank loan issued to the ELG group's German subsidiary and the remainder of the proceeds is be used for working capital needs and transaction costs.

To repay the bank loan, the Group will use the cash flow earned from its operating activities. Based on the forecast prepared by the management, the Group plans to obtain sufficient funds and will be able to pay for its liabilities within the specified payment terms.

25. Capital management

Capital includes total equity.

The aim of the Group's capital management is to support business operations with an optimal capital structure by ensuring normal resources for operations and increasing shareholder value with the goal of generating the best possible return.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. The Group monitors the ratio of net interest-bearing debt to adjusted EBITDA. For this purpose, net interest-bearing debt is defined as total interest-bearing debt less cash and cash equivalents. Adjusted EBITDA comprises reported EBITDA before taking into account extraordinary items, which are not in line with the ordinary course of business.

The Group's net interest-bearing debt to adjusted EBITDA ratio at 31 December was as follows:

In thousands of EUR	Note	2020	2019
Interest-bearing debt	*28*	51,901	46,996
Less: cash and cash equivalents		(5,915)	(1,365)
Net interest-bearing debt		**45,986**	**45,631**
Reported EBITDA		(699)	8,184
Extraordinary items		4,653	645
Adjusted EBITDA		**3,954**	**8,829**
Net interest-bearing debt to adjusted EBITDA		**11.63**	**5.17**

Extraordinary items include the following:

In thousands of EUR	2020	2019
Costs related to the contemplated restructuring costs of the Group	3,385	93
Transaction costs:		
Bond change / amendment / restructuring related costs	1,002	137
Acquisition of subsidiary	-	4
Capital raise related costs	180	-
Net loss on disposal of property, plant and equipment and intangible assets	36	70
Management contract termination costs	-	310
Gain on disposal of subsidiary	-	(217)
Other costs	50	248
Total	**4,653**	**645**

- *Costs related to the contemplated restructuring of the Group* in 2020 comprised consulting and legal expenses related to further restructuring measures plan preparation for the Group as well as accrued costs for potential business model transformation. Restructuring of brands/subsidiaries in 2019 related to restructuring/consolidation of some functions within Felina Group which caused one-off dismissal costs and closure costs as well as consulting and legal expenses related to further restructuring measures plan preparation for the Group.

- *Transaction costs* in 2020 related to renegotiation of the Bond Terms and Conditions, establishment and registration of additional collateral requested by the bondholders as well as restructuring of the bonds through an investment process. 2019 transaction costs related to acquisition of Yustina OOO (renamed to Senselle OOO) and costs related to renegotiation of the Bond Terms and Conditions.

- *Capital raise related costs* in 2020 included mainly legal costs related to potential equity and debt attraction projects.

- *Management contract termination costs* in 2019 related to contract terminations with Mr Peter Partma, Mr Christian Stolba and Ms Brigitte Hardt.

- *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 33.

- *Other costs* in 2020 included various consulting costs related to the potential investment projects. Other costs in 2019 related to the establishment and activities of the new subsidiary in Germany - Brafetch GmbH, various consultancy costs related to potential investment projects and costs of renaming and relabelling of two new Felina lingerie garment series

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the issuer to accelerate loans and borrowings.

Due to COVID-19 pandemic, the Group was not able to raise the required amount of equity in full in the beginning of 2020. Therefore, the amendments to the Terms and Conditions as approved in the written procedure, including the adjustments to the maintenance test for the reference period ending on 31 December 2020, did not come into effect, which has resulted in the continuing breach of the maintenance test.

In April 2020, the Group initiated discussions with the bondholders and other investors to find solutions for the Group with regard to the terms and conditions and in July 2020 reached an agreement on the standstill with the Bondholder Committee (Representing approximately 64 per cent of the total nominal amount of the bonds) regarding ELG's defaults under the Terms and Conditions until the execution of the restructuring of the Group and the Bonds. In April 2021, the Group and its major shareholders signed an agreement with the Bondholder Committee, AS Rietumu Banka as a lender and its affiliated company RB ELG SIA as an equity investor on the restructuring of ELG and its Bonds, under which the Bonds were repaid with EUR 21 million in cash and the remaining nominal amount of EUR 19 million of the Bonds plus accrued and unpaid interest was written down to zero. The transaction was closed in June 2021 with the repayment to the Bondholders made on 6 July 2021. Refer to Note 39 for further details on subsequent events.

26. Net employee defined benefit liability

Net employee defined benefit liability was acquired by the Group as a result of SIA European Lingerie Group acquisition in 2018. Felina GmbH contributes to the post-employment defined benefit plan in Germany. The plan was established on 31 December 1984 and entitled each member of staff, who was employed as of that date and who had joined the Company before 5 March 1982, to the right for the Company pension benefits. The following types of pension benefits are granted:

- Retirement pension
- Early retirement pension
- Occupational or permanent disability pension
- Widow's, widower's and orphan's pension.

Pension benefits are only granted if the pension beneficiary has completed an eligible service period of at least 10 years. The age limit is the completed 65th year of life. The eligible service period is viewed to be the time the employee has spent in the company without interruption since joining the company. Years of service are no longer credited once the employee reaches his or her 65th birthday. The pension scheme was closed to new hires starting from 1 March 1996.

Furthermore, a minor plan was established by Felina International AG in Switzerland. However, there was a settlement of the plan in June 2018 which was a result of the simplification of the Group structure and closure of Felina International AG office. As a result of settlement, all benefits provided under the defined benefit plan were eliminated.

The defined benefit plans are administered by pension funds that are legally separated from the Group. The boards of the pension funds are required by law to act in the best interest of the plan participants and are responsible for setting certain policies (investment, contribution and indexation policies) of the fund.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

Funding

The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements) for the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination has been made on a plan-by-plan basis. As such, no decrease in the defined benefit asset was necessary at 31 December 2020 and 2019.

The Group expects to pay EUR 222 thousand in contributions to its defined benefit plan in Germany in 2021. During 2020 the Group paid EUR 217 thousand in contributions.

Movement in net defined benefit liability

The following table shows reconciliation from the opening balances to the closing balance for the net defined benefit liability and its components.

		Defined benefit obligations		Fair value of plan assets		Net defined benefit liability	
In thousands of EUR	**Note**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Balance at 1 January		**3,480**	**3,952**	**(144)**	**(144)**	**3,336**	**3,808**
Included in profit or loss							
Current service cost		7	7	-	-	7	7
Interest cost	*11*	21	57	-	-	21	57
	14	**28**	**64**	**-**	**-**	**28**	**64**
Included in other comprehensive income							
Remeasurement loss (gain):							
- Actuarial loss (gain) arising from financial assumptions		43	300	-	-	43	300
- Actuarial gain arising from experience adjustment		68	(527)	-	-	68	(527)
		111	**(227)**	**-**	**-**	**111**	**(227)**
Other							
Contributions paid by the employer		(217)	(309)	-	-	(217)	(309)
		(217)	**(309)**	**-**	**-**	**(217)**	**(309)**
Balance at 31 December		**3,402**	**3,480**	**(144)**	**(144)**	**3,258**	**3,336**

Plan assets

As at 31 December 2020, plan assets in the amount of EUR 144 thousand include pension insurance (31 December 2019: EUR 144 thousand).

Defined benefit obligation

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages) for the pension plan in Germany:

	2020	2019
Discount rate	0.51%	0.63%
Future salary growth	0.00%	0.00%
Future pension growth	1.40%	1.40%

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	2020	
In thousands of EUR	Increase	Decrease
Discount rate (1% movement)	(329)	394
Future salary growth (1% movement)	-	-
Future pension growth (1% movement)	358	(307)
Future mortality (1% movement)	33	(33)

	2019	
In thousands of EUR	Increase	Decrease
Discount rate (1% movement)	(341)	409
Future salary growth (1% movement)	-	-
Future pension growth (1% movement)	369	(316)
Future mortality (1% movement)	34	(34)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

27. Provisions

	2020			
In thousands of EUR	Restructuring provision	Provisions for employee benefits	Other provisions	Total
Balance at 1 January	**-**	**225**	**42**	**267**
Provisions made during the year	2,650	12	-	2,662
Provisions used during the year	-	(45)	-	(45)
Provisions reversed during the year	-	(18)	(21)	(39)
Balance at 31 December	**2,650**	**174**	**21**	**2,845**
Non-current	-	158	-	158
Current	2,650	16	21	2,687
	2,650	**174**	**21**	**2,845**

	2019		
In thousands of EUR	Provisions for employee benefits	Other provisions	Total
Balance at 1 January	**218**	**106**	**324**
Provisions made during the year	9	-	9
Provisions used during the year	-	-	-
Provisions reversed during the year	(2)	(64)	(66)
Balance at 31 December	**225**	**42**	**267**
Non-current	221	-	221
Current	4	42	46
	225	**42**	**267**

Restructuring provision

Restructuring provision was made by various Group companies and includes costs related with optimisation of functions as well as related consulting costs. The restructuring plan was introduced to lower the fixed cost base and create a more sustainable business model for the long-term, which would bring stable and better profit.

Provisions for employee benefits

Provisions for employee benefits include jubilee provision (EUR 102 thousand) and retirement reward provision (EUR 72 thousand) as of 31 December 2020 (31 December 2019: EUR 120 thousand and EUR 105 thousand respectively).

Jubilee provision relates to Felina GmbH. When an employee of the Company reaches the jubilee of 25 or 40 years of staff membership, the Company grants a payment of 100% and 150% of the gross salary for 25 and 40 years of the jubilee membership respectively. Jubilee provision is recognised based on the estimated future payments to employees discounted at a high-quality bond rate.

Retirement reward provision is recognized by Dessus-Dessous S.A.S. When non-executive employee of the Company reaches 10, 15, 20, 25 and 30 years of staff membership on their retirement date, the Company grants a payment of 1 month salary, 1.5 months salary, 2 months salary, 2.5 months salary and 3 months salary for each period of the jubilee membership respectively. For executive employees 8, 10, 15, 20, 25 years of staff membership correspond to 1, 1.5, 2.5, 3.5, 5 months salary respectively. The provision is recognised based on the estimated future payments to employees discounted at a high-quality bond rate.

Other provisions

Other provisions include advertising subsidies to customers and other minor provisions.

28. Loans and borrowings

In thousands of EUR	2020	2019
Non-current liabilities		
Lease liabilities	3,261	2,532
Long-term secured bank loans	213	134
Other long-term loans	78	-
	3,552	**2,666**
Current liabilities		
Secured bonds	42,582	39,616
Short-term secured bank loans	3,963	2,678
Current portion of lease liabilities	1,221	1,231
Other loans from related parties (Note 36)	336	-
Current portion of secured long-term bank loans	132	32
Secured other loans	77	698
Current portion of other long-term loans	38	-
Short-term unsecured bank loans	-	75
	48,349	**44,330**
Total	**51,901**	**46,996**

Short-term secured and unsecured bank loans represent bank overdrafts.

Other long-term loans include loan received by Felina Polska Sp. z o.o from Polski Fund Rozwoju. The details of the loan are described below in "Terms and repayment schedule".

Secured other loans represent amounts received from factoring companies, see Note 21.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

					Carrying amount	
In thousands of EUR	*Note*	Currency	Nominal interest rate	Year of maturity	2020	2019
Secured bonds		EUR	3m Euribor + 7.75%	2021	42,582	39,616
Secured bank loan		EUR	3m Euribor + 4.0%	2021	3,963	2,596
Secured bank loan		EUR	1.2%	2022	345	166
Secured bank loan		EUR	6m Euribor + 4.5%	2020	-	82
Unsecured bank loan		EUR	3.0%	2020	-	60
Unsecured bank loan		EUR	3m Euribor +2.0%	2020	-	15
Secured other loans		EUR	6m Euribor + 4.5%	2020	-	698
Secured other loans		RUB	14.6%	2021	77	-
Unsecured other loans		PLN	0.0%	2023	116	-
Loans from related parties	*36*	EUR	15.0%	2021	336	-
Lease liabilities		EUR	6.8%-8.8%	2020-2028	3,848	2,867
Lease liabilities		EUR	6m Euribor + 3.8%	2024	437	548
Lease liabilities		PLN	7.6%	2023-2028	69	128
Lease liabilities		RUB	7.6%	2023	81	105
Lease liabilities		HUF	7.6%	2020-2023	31	59
Lease liabilities		EUR	6m Euribor + 3.2%	2020	-	21
Lease liabilities		EUR	3m Euribor + 1.99%	2023	13	19
Lease liabilities		EUR	6m Euribor + 2.3%	2021	1	8
Lease liabilities		EUR	3.44%	2021	2	8
Total interest-bearing liabilities					**51,901**	**46,996**

In 2020, Felina GmbH extended the agreement with Commerzbank AG concerning credit line for the amount of EUR 4,350 thousand. The agreement matures in 2021, and the annual interest rate is 3m Euribor + 4.0%. The amount of credit line utilized as at 31 December 2020 was EUR 3,963 thousand (31 December 2019: EUR 2,596 thousand). The loan is secured with "Felina" and "Conturelle" brand names with the carrying amount of EUR 4,225 thousand.

In 2020, LSEZ Lauma Fabrics SIA extended the credit line agreement with AS Citadele Bank concerning a credit line of EUR 300 thousand. The agreement matured in February 2021, and the annual interest rate was 6m Euribor + 3.8% until 10 February 2020 an 6m Euribor + 4.5% from 10 February 2020 until maturity. There was not any amount of credit line utilized as at 31 December 2020 (31 December 2019: EUR 82 thousand). The loan was secured with commercial pledge over all assets of LSEZ Lauma Fabrics SIA (total assets value was EUR 23,461 thousand as of 31 December 2020), financial pledge over cash balances at the bank accounts of LSEZ Lauma Fabrics SIA (EUR 869 thousand as of 31 December 2020) and AS "Attīstības finanšu institūcija "ALTUM" guarantee in the amount of EUR 240 thousand.

In 2019, Dessus-Dessous S.A.S signed an agreement with Banque Dupuy de Parseval for secured bank loan in the total amount of EUR 400 thousand to finance its Magento and Open ERP platform migration project. The loan is issued in several instalments as the Company bears respective costs. The remaining amount was drawn during 2020 and repayment started in August 2020. The loan matures in 2022, and the annual interest rate is 1.2%. The loan is secured with Dessus-Dessous brand name with the carrying amount of EUR 1,762 thousand, customer base with the carrying amount of EUR 583 thousand and movable property with the carrying amount of EUR 1,861 thousand.

In July 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 in 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 received by LSEZ Lauma Fabrics SIA from the transaction of EUR 595 thousand. The lease matures in 2024, and the annual interest rate is 6m Euribor + 3.8%.

Unsecured other loans include interest free loan received by Felina Polska Sp. z o.o from Polski Fund Rozwoju in the amount of EUR 114 thousand to overcome the negative consequences of COVID-19. The loan matures in May 2023 and is repayable in equal parts starting from June 2021. 75% of the loan may be forgiven by the Fund and is not due for repayment by Felina Polska Sp. z o.o depending on the fulfilment of the following criteria:

- 25% of the loan may be forgiven if the company continues the business during 12 months following the loan issuance.
- 25% of the loan may be forgiven if the company keeps the average number of employees during 12 months following the loan issuance.
- Up to 25% of the loan may be forgiven depending on the loss in sales during 12 months following the loan issuance.

Secured other loans represent amounts received from factoring companies, see Note 21.

Breach of bonds covenant

The Group held secured bonds with a carrying amount of EUR 42,582 thousand at 31 December 2020 (2019: EUR 39,616 thousand). The bonds contained a covenant under which the Group's net interest-bearing debt to EBITDA ratio at the end of each quarter during 2020 cannot exceed 4.25 times. The Group exceeded the limit in the third quarter and fourth quarter of 2019 and in all quarters of 2020. As the waiver in respect of the third quarter 2019 was received by the Group in January 2020 and the waivers in respect of the fourth quarter 2019 was only included in the Standstill Agreement concluded with the Bondholder Committee on 29 July 2020, the Group reclassified the bonds under the short-term loans and borrowings at 31 December 2019. For more details on actions taken by the Group and outcome of those actions refer to Notes 25 and 38.

Changes in liabilities arising from financing activities

In thousands of EUR	*Note*	Loans and borrowings	Bonds	Lease liabil-ities	Deferred income	Total
Balance at 1 January 2020		**3,617**	**39,616**	**3,763**	**564**	**47,560**
Changes from financing cash flows						
Proceeds from loans and borrowings		647	-	-	-	647
Change in bank overdraft		1,210	-	-	-	1,210
Payment of lease liabilities		-	-	(1,313)	-	(1,313)
Repayment of borrowings		(54)	-	-	-	(54)
Factoring paid		(613)	-	-	-	(613)
Proceeds from grants and donations		-	-	-	2,536	2,536
Total changes from financing cash flows		**1,190**	**-**	**(1,313)**	**2,536**	**2,413**
Other changes						
Liability-related						
New leases		-	-	252	-	252
Interest expense		268	3,152	307	-	3,727
Interest expense (amortisation of transaction costs)		-	624	-	-	624
Interest paid		(227)	(810)	(307)	-	(1,344)
Remeasurement of lease liabilities		-	-	1,989	-	1,989
Termination of lease liabilities		-	-	(145)	-	(145)
Income from government grants		-	-	-	(2,649)	(2,649)
Change in trade and other receivables		-	-	-	59	59
Effect of movements in exchange rates		(11)	-	(64)	(23)	(98)
Total liability-related other changes		**30**	**2,966**	**2,032**	**(2,613)**	**2,415**
Balance at 31 December 2020		**4,837**	**42,582**	**4,482**	**487**	**52,388**

In thousands of EUR	*Note*	Loans and borrowings	Bonds	Lease liabil-ities	Deferred income	Total
Balance at 1 January 2019		**1,950**	**39,049**	**94**	**786**	**41,879**
Changes from financing cash flows						
Proceeds from loans and borrowings		166	-	-	-	166
Change in bank overdraft		1,573	-	-	-	1,573
Proceeds from sale and leaseback transaction		-	-	595	-	595
Payment of lease liabilities		-	-	(1,299)	-	(1,299)
Factoring paid		(77)	-	-	-	(77)
Proceeds from grants and donations		-	-	-	13	13
Total changes from financing cash flows		**1,662**	**-**	**(704)**	**13**	**971**
Other changes						
Liability-related						
Leases from business combination	32	-	-	53	-	53
New leases		-	-	5,085	-	5,085
Interest expense		131	3,143	311	-	3,585
Interest expense (amortisation of transaction costs)		-	567	-	-	567
Interest paid		(131)	(3,143)	(311)	-	(3,585)
Remeasurement of lease liabilities		-	-	(33)	-	(33)
Termination of lease liabilities		-	-	(744)	-	(744)
Income from government grants		-	-	-	(226)	(226)
Effect of movements in exchange rates		5	-	12	(9)	8
Total liability-related other changes		**5**	**567**	**4,373**	**(235)**	**4,710**
Balance at 31 December 2019		**3,617**	**39,616**	**3,763**	**564**	**47,560**

Lease liabilities

	Future lease payments		Interest		Present value of future lease payments	
In thousands of EUR	2020	2019	2020	2019	2020	2019
Less than one year	1,571	1,837	296	237	1,275	1,600
Between one and five years	2,801	1,999	620	311	2,181	1,688
More than five years	1,197	523	171	48	1,026	475
Total	**5,569**	**4,359**	**1,087**	**596**	**4,482**	**3,763**

29. Trade and other payables

In thousands of EUR	2020	2019
Financial trade and other payables		
Trade payables	4,635	7,086
Accrued expenses	2,382	1,823
Payables to personnel	566	667
Other payables	503	552
Trade payables to related parties (Note 36)	56	-
Other payables due to related parties (Note 36)	9	-
	8,151	**10,128**
Non-financial trade and other payables		
Refund liabilities	661	349
VAT payable	64	376
Personal income tax payable	170	277
Social contributions payable	478	454
Other taxes payable	22	21
	1,395	**1,477**
Total	**9,546**	**11,605**
Non-current	68	92
Current	9,478	11,513
Total	**9,546**	**11,605**

Other payables at 31 December 2019 included EUR 51 thousand payable for acquisition of Dessus-Dessous S.A.S (31 December 2020: none).

Information about the Group's exposure to currency and liquidity risks is included in Note 31.

For terms and conditions relating to related party payables, refer to Note 36.

30. Deferred income

In thousands of EUR	2020	2019
Long-term government grants	177	221
Short-term government grants	82	28
Long-term LIDA financing	208	228
Short-term LIDA financing	20	87
Deferred income	**487**	**564**

Deferred income includes grants received by Felina Hungaria kft from the National Development Agency, Hungarian Development Bank and National Employment Office in Hungary in relation to the acquisition of property, plant and equipment. The grants were provided during 2000-2015 in the total amount of approximately EUR 1,462 thousand. The financing was initially recognized as part of deferred income and is to be charged to the other operating income over the useful life of the relevant property, plant and equipment – 7 to 50 years.

Deferred income also includes a grant from the Investment and Development Agency of Latvia in relation to the reconstruction of the finishing and dyeing departments of LSEZ Lauma Fabrics SIA. The total value of the projects is EUR 4,857 thousand. This grant was initially recognized as part of deferred income and is to be charged to the other operating income over the useful life of the relevant property, plant and equipment - 5 to 20 years.

31. Financial instruments – Fair values and risk management

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy, at 31 December 2020 and 2019. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

In thousands of EUR	Note	Carrying amount 2020	Carrying amount 2019	Fair value 2020	Fair value 2019	Fair value level
Financial assets not measured at fair value						
Financial assets measured at amortised cost						
Non-current other receivables	*21*	651	717	605	681	Level 3
		651	**717**	**605**	**681**	
Financial liabilities not measured at fair value						
Financial liabilities measured at amortised cost						
Bonds	*28*	42,582	39,616	42,582	40,466	Level 3
Long-term bank loans	*28*	213	166	187	147	Level 3
Other long-term loans	28	78	-	78	-	Level 3
		42,873	**39,782**	**42,847**	**40,613**	

Measurement of fair values

The fair value of other receivables, bonds and long-term bank loan were estimated as the present value of future cash flows, discounted at a discount rate of 7.75%, which is Group's bonds rate.

The Group has exposure to the following risks arising from financial instruments:

a) credit risk
b) liquidity risk
c) currency risk
d) interest rate risk

(i) Risk management framework

The general principles of the Group's risk management are approved by the Board of Directors, and their practical implementation is the responsibility of the Group's management. The aim of the Group's risk management is to minimize the adverse effects of financial market fluctuations on the Group's result.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amount of financial assets and contract assets represent the maximum credit exposure.

Trade and other receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the segment and country in which customers operate. Details of concentration of revenue are included in Note 8 (ii).

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, financial statements and industry information. Sale limits are established for each customer and reviewed on necessity. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group does not have significant credit risk concentrations in its receivables because it has a diversified clientele. Significant concentrations for individual counterparties and related counterparty groups, as defined by management of the Group, are those exceeding 10% of total exposure.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 10 to 180 days. The Group does not require collateral in respect of trade and other receivables. The group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including the segment in which they are trading and their geographic location.

The Group is monitoring the economic environment in Russia, Belarus and Ukraine and is taking actions to limit its exposure to customers in countries experiencing particular economic volatility.

At 31 December, the exposure to credit risk for trade and other receivables (excluding loans issued) and contract assets by geographic regions was as follows:

In thousands of EUR	*Note*	2020	2019
Baltic States		2,278	2,580
Russia		1,924	2,551
Belarus		1,270	1,408
Germany		1,024	1,641
Poland		577	955
Spain		464	1,389
Italy		454	709
Morocco		439	445
Ukraine		359	498
Other counties		1,812	2,475
Total		**10,601**	**14,651**
Off-balance sheet guarantees issued	*35*	34	969

At 31 December, the exposure to credit risk for trade and other receivables and contract assets by segments was as follows:

In thousands of EUR	*Note*	2020	2019
Textiles products		6,676	8,126
Lingerie products		3,793	6,303
Not-allocated		132	222
Total		**10,601**	**14,651**
Off-balance sheet guarantees issued	*35*	34	969

Expected credit loss assessment for collectively assessed debtors as at 31 December

The Group uses an allowance matrix to measure the ECLs of trade and other receivables from debtors, excluding those debtors who are assessed on an individual basis. Individually assessed debtors include individually significant customers.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in each product segment based on the common credit risk characteristics which is a geographic region.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables and contract assets from debtors assessed collectively as at 31 December.

	2020		
In thousands of EUR	Average loss rate	Gross carrying amount	Loss allowance
Current (not past due)	0.33%	4,907	(16)
Past due 1-30 days	1.32%	454	(6)
Past due 31-60 days	1.96%	358	(7)
Past due 61-90 days	12.07%	58	(7)
Past due 91-180 days	39.53%	253	(100)
Past due more than 180 days	100.00%	946	(946)
Total		**6,976**	**(1,082)**

	2019		
In thousands of EUR	Average loss rate	Gross carrying amount	Loss allowance
Current (not past due)	0.26%	6,110	(16)
Past due 1-30 days	0.85%	1,056	(9)
Past due 31-60 days	2.82%	461	(13)
Past due 61-90 days	8.10%	210	(17)
Past due 91-180 days	28.88%	374	(108)
Past due more than 180 days	100.00%	696	(696)
Total		**8,907**	**(859)**

Loss rates for both textiles and lingerie segment are based on actual credit loss experience during 2020 when payment pattern of the debtors was much impacted by COVID-19 consequences.

Expected credit loss for individually assessed customers as at 31 December

The Group calculates ECL for individually assessed customers based on cash flow projections of future payments. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at the Group's bonds rate of 7.75%. The Group also regularly reviews external ratings (if any), financial statements, management accounts, available press information for individually assessed customers and uses this information to support the cash flow projections. Gross carrying amount of trade receivables from individually assessed customers was EUR 5,718 thousand at 31 December 2020 (2019: EUR 7,546 thousand) and respective allowance for ECL was EUR 1,011 thousand (2019: EUR 943 thousand).

Movements in the allowance for impairment in respect of trade and other receivables and contract assets

The movement in the allowance for impairment in respect of trade and other receivables and contract assets during the reporting period was as follows:

	2020	2019
Balance at 1 January	**1,802**	**1,700**
Amounts written off	(45)	(74)
Net remeasurement of loss allowance	360	164
Effect of movements in exchange rates	(24)	12
Balance at 31 December	**2,093**	**1,802**

None of trade receivables written off during the reporting period are still subject to enforcement activity.

Loans issued

Loans issued by the Group include only loans issued to related parties (refer to Note 36 for more details).

The Group monitors changes in credit risk by regularly reviewing financial statements of debtors, external ratings if they are available.

The exposure to credit risk for loans issued and measured at amortised cost at the reporting date by geographic region was as follows:

In thousands of EUR	2020	2019
Baltic States	763	681
Great Britain	37	36
Total	**800**	**717**

The following table presents an analysis of the credit quality of loans at amortised cost. It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

Credit rating	2020	
In thousands of EUR	12-month ECL	Lifetime ECL – credit-impaired
Non-rated	149	651
Gross carrying amounts	149	663
Loss allowance	-	(12)
Carrying amount	**149**	**651**

Credit rating	2019	
In thousands of EUR	12-month ECL	Lifetime ECL – credit-impaired
Non-rated	145	572
Gross carrying amounts	145	674
Loss allowance	-	(102)
Carrying amount	**145**	**572**

The Group holds no collateral in respect of loans issued.

The movement in the allowance for impairment in respect of loans at amortised cost during the reporting period was as follows:

In thousands of EUR	2020	2019
Balance at 1 January	**102**	**460**
Net remeasurement of loss allowance	(90)	(358)
Balance at 31 December	**12**	**102**

Decrease in the allowance for impairment is explained by the change in forecasted cash flows under the loan to a positive scenario as a result of strong financial results demonstrated by the borrower (Group's joint venture) during 2019 and 2020 and partial repayment of the loan during 2019 and 2020 in the amount of EUR 74 thousand and EUR 47 thousand (including EUR 21 thousand repayment of interest) respectively.

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 5,915 thousand as at 31 December 2020 (31 December 2019: EUR 1,365 thousand). Main banks used by each company of the Group are approved by the Board of Directors. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated not lower than Ba3, based on Moody's ratings.

Impairment on cash and cash equivalents is measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Guarantees

The Group's policy is to provide financial guarantees only for subsidiaries' and joint venture's liabilities. LSEZ Lauma Fabrics SIA has issued a guarantee to a bank in respect of credit facilities granted to its joint venture (liability outstanding as of 31 December 2020 and 31 December 2019 was EUR 34 thousand and EUR 405 thousand respectively). Refer to Note 35 for more details.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Refer to Note 28 for the details on credit line facilities utilised by the Group.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements.

In thousands of EUR	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	Total
Secured bank loans	4,308	4,031	68	136	79	4,314
Secured bonds	42,582	42,867	-	-	-	42,867
Loans from related parties	336	381	-	-	-	381
Secured other loans	77	77	-	-	-	77
Unsecured other loans	116	5	33	65	27	130
Lease liabilities	453	71	69	137	208	485
Trade and other payables	8,151	8,072	12	25	42	8,151
	56,023	**55,504**	**182**	**363**	**356**	**56,405**
Off-balance sheet guarantees issued	34	34	-	-	-	34

The following are the remaining contractual maturities of financial liabilities at 31 December 2019:

In thousands of EUR	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Total
Secured bank loans	2,844	2,682	29	57	79	-	2,847
Unsecured bank loans	75	75	-	-	-	-	75
Secured bonds	39,616	1,559	1,584	40,792	-	-	43,935
Secured other loans	698	698	-	-	-	-	698
Lease liabilities	3,763	1,098	739	872	1,127	523	4,359
Trade and other payables	10,128	10,024	12	24	68	-	10,128
	57,124	**16,136**	**2,364**	**41,745**	**1,274**	**523**	**62,042**
Off-balance sheet guarantees issued	969	969	-	-	-	-	969

The interest payments on variable interest rate loans in the table above are based on rates which were valid at the end of the reported periods. These amounts may change as market interest rates change.

For further details on off-balance sheet guarantees issued refer to Note 35.

(iv) Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the operating activities of Felina International AG Group, AO Avangard and Senselle OOO, when sales and purchases of companies are denominated in a different currency from their functional currency.

When the Group estimates the currency risk to be high for separate contracts and possible impact to be significant, forward exchange contracts are used to hedge the risk.

The Group is most exposed to currency risks arising from fluctuations in the exchange rates of functional currencies of Group companies against EUR (when functional currency is CHF, HUF, RUB and BYN) and USD (when functional currency is EUR).

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group as at 31 December 2020 is as follows:

In thousands of EUR	HUF	CHF	RUB	USD	BYN	EUR	Other curren-cies	Total
Cash and cash equivalents	904	102	101	41	-	4,591	176	5,915
Trade and other receivables	2	-	1,401	27	-	9,332	613	11,375
Loans and borrowings	(31)	-	(158)	-	-	(51,511)	(201)	(51,901)
Trade and other payables	(195)	(17)	(111)	(76)	(18)	(7,481)	(253)	(8,151)
Net statement of financial position exposure	**680**	**85**	**1,233**	**(8)**	**(18)**	**(45,069)**	**335**	**(42,762)**

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group as at 31 December 2019 is as follows:

In thousands of EUR	HUF	CHF	RUB	USD	BYN	EUR	Other curren-cies	Total
Cash and cash equivalents	78	101	62	32	17	967	108	1,365
Trade and other receivables	97	36	2,204	49	-	12,011	942	15,339
Loans and borrowings	(59)	-	(105)	-	-	(46,704)	(128)	(46,996)
Trade and other payables	(314)	(73)	(150)	(168)	(64)	(9,269)	(90)	(10,128)
Net statement of financial position exposure	**(198)**	**64**	**2,011**	**(87)**	**(47)**	**(42,995)**	**832**	**(40,420)**

A 5% strengthening (weakening) of CHF, HUF, RUB, BYN, USD against EUR at 31 December 2020 and 2019 would have affected the measurement of financial instruments denominated in foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2020

In thousands of EUR	Profit or loss		Equity, net of tax	
	Strength-ening	Weaken-ing	Strength-ening	Weaken-ing
HUF	(93)	93	(22)	22
CHF	(204)	204	-	-
RUB	(5)	5	(10)	10
BYN	10	(10)	(4)	4
USD	1	(1)	1	(1)

31 December 2019

In thousands of EUR	Profit or loss		Equity, net of tax	
	Strength-ening	Weaken-ing	Strength-ening	Weaken-ing
HUF	(74)	74	(1)	1
CHF	(200)	200	-	-
RUB	32	(32)	(3)	3
BYN	19	(19)	(3)	3
USD	4	(4)	3	(3)

(v) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term assets with fixed interest rates. The Group does not hedge the interest rate risk, but the management of the Group regularly reviews the significance of the risk and will apply risk hedging instruments in case the risk becomes high.

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

In thousands of EUR	2020	2019
Fixed-rate instruments		
Financial assets	800	717
Financial liabilities	(4,896)	(3,393)
Net position	**(4,096)**	**(2,676)**
Variable-rate instruments		
Financial assets	-	-
Financial liabilities	(47,005)	(43,603)
Net position	**(47,005)**	**(43,603)**

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Group does not use derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss. A change of 100 basis points in interest rates would have increased or decreased equity by EUR 32 thousand after tax as at 31 December 2020 (31 December 2019: EUR 18 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Cash flow sensitivity analysis for variable-rate instruments

The Group monitors the sensitivity of its interest-bearing loans and borrowings to changes in interest rates and the effect of such changes on the Group's profit or loss and equity. A reasonably possible change of 100 basis points in interest rates at the reporting dates would have increased or decreased equity and profit or loss by EUR 366 thousand at 31 December 2020 (31 December 2019: EUR 343 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

32. 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	*Note*	
Property, plant and equipment	*16*	4
Right-of-use assets	*17*	53
Inventories		2
Trade and other receivables		25
Cash and cash equivalents		28
Loans and borrowings	*28*	(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	**9**	**22**

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

During 2019 Senselle OOO contributed revenue of EUR 100 thousand, net loss of EUR 211 thousand to the Group's results.

Dessus-Dessous S.A.S

During 2020 the Group paid EUR 51 thousand for Dessus-Dessous S.A.S (2019: EUR 226 thousand), which was acquired in June 2018. There was no consideration remaining payable at 31 December 2020 (31 December 2019: EUR 51 thousand).

AO Avangard

During 2019 the Group paid the remaining EUR 11 thousand for AO Avangard, which was acquired in 2017.

33. 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	18	(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	9	**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.

34. Leases

Leases as lessee

The Group has lease contracts for various items of buildings, machinery and equipment, vehicles and other items of fixed assets used in its operations. For lease terms of each group of assets refer to Note 3.19 (i). The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain leases with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption for these leases.

Carrying amounts of right-of-use assets recognised and the movements during 2020 are disclosed in Note 17.

For carrying amounts and movement in lease liabilities during the reporting period refer to Note 28.

The maturity analysis of lease liabilities is disclosed in Note 31 (iii).

The following are the amounts recognised in profit or loss:

In thousands of EUR	Note	2020	2019
Depreciation expense of right-of-use assets	17	1,658	1,386
Interest expense on lease liabilities	28	307	311
Expense relating to short-term leases (included in other operating expenses)	12	225	325
Total amount recognised in profit or loss		**2,190**	**2,022**

During 2019 the Group entered into a sale and leaseback agreement, the details of which are disclosed in Note 28.

Leases as lessor

LSEZ Lauma Fabrics SIA leases out some premises within its main building in Liepaja, Latvia. The building is owned and used by the company for production, while some space is unoccupied and thus is leased out. The carrying amount of the building was EUR 4,201 thousand at 31 December 2020 (31 December 2019: EUR 4,501 thousand).

At 31 December, the future minimum lease payments under non-cancellable leases were receivable as follows:

In thousands of EUR	2020	2019
Less than one year	71	3
Between one and five years	-	-
Total	**71**	**3**

35. Guarantees issued

LSEZ Lauma Fabrics SIA issued the following guarantees by which it guarantees the repayment of the payables by its joint venture – Tele Textile Latvia SIA:

- a guarantee on factoring liabilities of Tele Textile Latvia SIA to SIA Citadele lizings un faktoring up to the limit of EUR 400 thousand at 31 December 2019. The guarantee expired in 2020 and Tele Textile Latvia SIA did not have any payables outstanding in favour of the creditor at 31 December 2020 (31 December 2019: EUR 226 thousand);
- a guarantee on finance lease liabilities of Tele Textile Latvia SIA to SIA Citadele lizings un faktorings up to the limit of EUR 34 thousand (31 December 2019: EUR 69 thousand). The amount of actual Tele Textile Latvia SIA payables outstanding in favour of the creditor at 31 December 2020 was EUR 34 thousand (31 December 2019: EUR 69 thousand). The guarantee expired in 2021 as a result of full repayment and expiration of the respective

finance lease agreements;

- a guarantee on line of letters of credit of Tele Textile Latvia SIA to AS Citadele Banka up to the limit of EUR 500 thousand at 31 December 2019. The guarantee expired in 2020 and Tele Textile Latvia SIA did not have any letters of credit outstanding at 31 December 2020 (31 December 2019: EUR 110 thousand).

The Group regularly assesses the necessity to recognise provisions in respect of the issued guarantees. At 31 December 2020 and 31 December 2019 no provisions were recognised for the issued guarantees as the management estimates the likelihood and magnitude of an outflow of resources as low.

36. Related parties

Transactions with key management personnel

Key management personnel compensation for the reporting period amounted to EUR 1,489 thousand and comprised only short-term employee benefits in the form of salaries and social contributions (2019: EUR 933 thousand).

Other related party transactions

In thousands of EUR	Transaction values for the period ended 31 December 2020	Balance outstanding at 31 December 2020	Transaction values for the period ended 31 December 2019	Balance outstanding at 31 December 2019
Sales of goods and services				
Joint ventures	46	-	44	-
Other related parties	314	-	69	-
Purchases of goods and services				
Shareholders	-	-	5	-
Other related parties	467	-	457	-
Interest income accrued during the year				
Joint ventures	36	-	41	-
Shareholders	4	-	4	-
Other related parties	**5**		**-**	
Interest expense accrued during the year				
Shareholders	36	-	-	-
Loans received				
Shareholders	300	-	-	-
Trade and other receivables, gross amount				
Shareholders	-	25	-	25
Joint ventures	-	6	-	6
Other related parties	-	1,118	-	1,023
Allowance for trade and other receivables				
Other related parties	-	(1,062)	-	(737)
Trade and other payables				
Other related parties	-	65	-	-
Loans receivable, gross amount				
Joint ventures	-	500	-	526
Shareholders	-	133	-	133
Allowance for loans receivable				
Joint ventures	-	(12)	-	(102)
Interest receivable				
Joint ventures	-	163	-	148
Shareholders	-	16	-	12
Loans payable				
Shareholders	-	300	-	-
Interest payable				
Shareholders	-	36	-	-

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

EUR 133 thousand of loans receivable from shareholders at 31 December 2020 were issued during 2017-2018. According to the loan agreement the loans carry the interest rate of 3% per annum and mature on 31 December 2021.

EUR 500 thousand of loan receivable from joint venture relates to the loan agreement signed back in 2015 between LSEZ Lauma Fabrics SIA and Tele Textile Latvia SIA. The loan balance was acquired by the Group in the common control transaction in 2018. According to the loan agreement the total amount of loan matures on 31 December 2025 and carries the interest rate of 7% per annum. Impairment loss in the amount of EUR 12 thousand was estimated by the Group at 31 December 2020 (31 December 2019: EUR 102 thousand).

The Group received a loan from shareholder, Helike Holdings OU, in the amount of EUR 300 thousand during 2020. The loan matures on 31 December 2021 and carries the interest rate of 15% per annum. The loan is subordinated to the bonds.

37. Share-based payment arrangements

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 European Lingerie Group AB 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. This entitlement vests on the first day of the next month following the first, second, third and fourth anniversary of the starting date of the agreement, i.e. on 1 July 2018, 1 July 2019, 1 July 2020 and 1 July 2021. In the event of termination of the agreement at any time before the next vesting date, the entitlement to shares for the respective running year terminates and is not re-calculated proportionally to the time during which the agreement was in force. The agreement was amended in September 2019 whereby the parties clarified the vesting condition for the shares, which is achievement of the budgeted annual EBITDA. The respective amendment is binding for the parties as of the date of conclusion of the original agreement, i.e. June 2017.

During the reporting period in Q1 2019, the Group recognised EUR 52 thousand of expenses related to the arrangement in profit or loss within other operating expenses and a corresponding increase in equity. The fair value of services received was estimated based on the number of days that passed from grant date in relation to vesting period days multiplied by the fair value of shares at grant date less fair value of services received and recorded in previous reporting periods. Fair value of shares at grant date was calculated as an average between fair value assessed by Group management and sum of fair values of LSEZ Lauma Fabrics SIA shares and Felina International AG shares purchase price. Fair value at grant date was estimated at EUR 65,687 thousand.

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 666 thousand as a reversal of previously recognised expenses related to the share-based payment arrangement as it was agreed between the parties in the amendment to the agreement concluded in September 2019 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.

38. Subsequent events

COVID-19 pandemic

The full impact of the COVID-19 pandemic on economic activity is not yet known and the situation continues to evolve. Management believes that the COVID-19 pandemic will not have a material continued long term impact on the Group's operations after the balance sheet date. However, this assumption is based on information available at the date of signing the financial statements, and the impact of future events on the Group's ability to continue as a going concern may differ from management's assessment.

Restructuring of the Group and the Bonds

Since April 2020 the Group was in discussions with the Bondholder Committee about the restructuring of the Bonds. Because of the ongoing restructuring process, the Group did not repay its Bonds on 22 February 2021, which was the original maturity date stipulated in the Terms and Conditions. The non-repayment of the bonds on the original maturity date constituted an Event of Default and any potential de-listing of the Bonds from Nasdaq

Stockholm could result in an Event of Default under the Terms and Conditions. The Company restored the listing of the Bonds on Nasdaq Stockholm on 23 February 2021 and upheld it to correspond with the period to close the transaction under the concluded Master Transaction Agreement. The Bondholder Committee undertook, during the standstill period, not to instruct the Agent to accelerate the Bonds due to any such Event of Defaults.

As a result, in April 2021 the Group and its major shareholders signed an agreement with the Bondholder Committee, AS Rietumu Banka as a lender and its affiliated company RB ELG SIA as an equity investor on the restructuring of ELG and its Bonds, under which the Bonds are to be repaid with EUR 21 million in cash and the remaining nominal amount of EUR 19 million of the Bonds plus accrued and unpaid interest to be written down to zero.

After a competitive bid process during the standstill period with several investors showing an interest in ELG Group and placing bids on ELG and/or the parts of it, it has been concluded by the Bondholder Committee and ELG that the best cash compensation offered is the offer received from the lender and the equity investor named above. Considering the structure of alternative offers on any alternative non-cash compensation offered by other bidders, the offer received from the lender and the equity investor was also for other reasons considered the strongest offer.

In May 2021, the proposed restructuring was also approved by the holders of the Bonds through a written procedure in accordance with the Terms and Conditions and closed subsequently on 29 June 2021 as the First Closing with the repayment of the Bonds made on 7 July 2021 and on 2 July as the Second Closing. The restructuring included the following:

- the equity investor acquired 30% of shares in SIA European Lingerie Group (SIA ELG), a subsidiary of European Lingerie Group AB (ELG AB), and certain receivables of ELG AB from ELG SIA for the total purchase price of EUR 4.5 million;
- the lender provided a loan to the Group of EUR 22.5 million. The loan has been secured by an extensive security package over the SIA ELG group's assets (including real estates, assets, machinery, shares, trademarks, receivables, etc);
- the proceeds from the loan and the equity investment amounted to in total EUR 27 million. EUR 21 million was used to repay the Bonds, EUR 2 million was used to refinance a bank loan issued to the ELG group's German subsidiary and the remainder of the proceeds is be used for working capital needs and transaction costs.

Changes within ELG Group legal structure

In April 2021, shares in OOO Senselle and Felina France Sarl previously owned by European Lingerie Group AB were sold to SIA European Lingerie Group. The transfer was made as part of the new lender and new equity investor entering the Group as the stakeholders.

Furthermore, in June 2021, 30% of shares in SIA European Lingerie Group were sold to RB ELG SIA as one of the bond restructuring steps described above.

New Chief Executive Officer (CEO)

In April 2021 Mr. Neeme Jõgi joined the Group as CEO. Mr. Jõgi is an experienced executive with a proven track record of leading and growing large scale manufacturing businesses over the last 25 years. His experience comes mostly from the fast-moving consumer goods (FMCG) sector, having gathered remarkable know-how on company turnaround, new marketing architecture and results focused development. Mr. Jõgi has a MA degree in Economics from Tallinn University of Technology and a EMBA degree in Strategic business planning from Estonian Business School. He is an Estonian national and speaks Estonian, Russian, English and Finnish. As the newest addition to the Group leadership, in his position as CEO Mr. Jõgi leads the Group Management Team and operations of the Group. As the Group CEO, Mr. Jõgi will be holding relevant appointments as a Board member in entities of ELG.

EUROPEAN LINGERIE GROUP AB

PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

Parent Company statement of profit or loss and other comprehensive income

In thousands of EUR	*Note*	2020	2019
Revenue	*41*	**149**	**116**
Other operating income		41	102
Employee benefits expense	*42*	(113)	(130)
Impairment loss on other receivables	*54*	(129)	-
Other operating expenses	*43*	(1,683)	(707)
Operating loss		**(1,735)**	**(619)**
Finance income	*44*	2,309	2,410
Finance costs	*45*	(3,848)	(3,728)
Net finance costs		**(1,539)**	**(1,318)**
Loss before income tax		**(3,274)**	**(1,937)**
Income tax expense	*46*	38	(13)
Loss for the year		**(3,236)**	**(1,950)**
Other comprehensive income		**-**	**-**
Total comprehensive income		**(3,236)**	**(1,950)**

The accompanying notes on pages 82 to 92 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 28 July 2021

Parent Company statement of financial position

As at 31 December

In thousands of EUR	*Note*	2020	2019
Assets			
Shares in subsidiaries	*47*	46,328	46,328
Receivables from Group companies	*48*	6,217	33,277
Deferred tax assets		25	-
Total non-current assets		**52,570**	**79,605**
Receivables from Group companies	*48*	27,335	166
Other receivables	*48*	159	208
Prepaid expenses and accrued income		-	31
Cash and bank	*49*	23	6
Total current assets		**27,517**	**411**
Total assets		**80,087**	**80,016**
Equity			
Restricted equity			
Share capital	*50*	60	60
Non-restricted equity			
Other paid in capital	*50*	43,500	43,500
Net income		(7,605)	(4,369)
Total equity		**35,955**	**39,191**
Liabilities			
Loans and borrowings	*52*	723	723
Deferred tax liabilities		-	13
Total non-current liabilities		**723**	**736**
Loans and borrowings	*52*	40,204	39,280
Liabilities to Group companies	*53*	75	158
Other liabilities	*53*	308	195
Accrued expenses and deferred income	*53*	2,822	456
Total current liabilities		**43,409**	**40,089**
Total liabilities		**44,132**	**40,825**
Total equity and liabilities		**80,087**	**80,016**

The accompanying notes on pages 82 to 92 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 28 July 2021

Parent Company statement of changes in equity

		Restricted equity	Non-restricted equity		
In thousands of EUR	Note	Share capital	Other paid in capital	Net income	Total equity
Balance at 31 December 2018	*60*		**43,500**	**(2,419)**	**41,141**
Total comprehensive income					
Loss for the period	-		-	(1,950)	(1,950)
Total comprehensive income	-		**-**	**(1,950)**	**(1,950)**
Balance at 31 December 2019	*60*		**43,500**	**(4,369)**	**39,191**
Total comprehensive income					
Loss for the period	-		-	(3,236)	(3,236)
Total comprehensive income	-		**-**	**(3,236)**	**(3,236)**
Balance at 31 December 2020	*60*		**43,500**	**(7,605)**	**35,955**

The accompanying notes on pages 82 to 92 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 28 July 2021

Parent Company statement of cash flows

In thousands of EUR	*Note*	2020	2019
Cash flows from operating activities			
Loss for the reporting period		(3,236)	(1,950)
Adjustments for:			
Finance income	*44*	(2,305)	(2,408)
Finance costs	*45*	3,841	3,725
Foreign exchange gains	*44*	(4)	(2)
Foreign exchange losses	*45*	7	3
Impairment loss on other receivables	*54*	129	-
Income tax expenses	*46*	(38)	13
Changes in:			
Trade and other receivables		690	12
Prepaid expenses and accrued income		31	96
Liabilities		105	180
Cash generated from operating activities		**(780)**	**(331)**
Interest paid	*52*	(809)	(3,143)
Net cash used in operating activities		**(1,589)**	**(3,474)**
Cash flows from investing activities			
Interest received		198	708
Proceeds from repayment of loans issued		1,218	2,449
Acquisition of subsidiary	*47*	-	(44)
Deposits placed in restricted accounts		(100)	-
Loans issued to Group companies		(10)	(396)
Net cash from investing activities		**1,306**	**2,717**
Cash flows from financing activities			
Proceeds from loans issued by related parties	*54*	300	-
Proceeds from loans issued by Group companies	*54*	-	723
Net cash from financing activities		**300**	**723**
Net increase/(decrease) in cash and bank		**17**	**(34)**
Cash and bank at 1 January	*49*	6	40
Cash and bank at 31 December	**49**	**23**	**6**

The accompanying notes on pages 82 to 92 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 July 2021 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 28 July 2021

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

39. Information on the Parent Company

General information

The Parent of the Group is European Lingerie Group AB.

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.

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

Throughout the whole 2020, European Lingerie Group AB carried out a restructuring process of its Bonds. In July 2020, the Parent reached an agreement on a standstill with the Bondholder Committee regarding the defaults under the Terms and Conditions as well as a cooperation with the Bondholder Committee to explore and execute the restructuring of the Bonds. Because of the ongoing restructuring process, the Parent di not repay its Bonds on 22 February 2021, which was the original maturity date stipulated in the Bond Terms.

As a result of the restructuring process, in April 2021, the Parent, other ELG Group companies and the major shareholders signed an agreement with the Bondholder Committee and the attracted lender and its affiliated company as the equity investor, under which the Bonds are to be repaid with EUR 21 million in cash and the remaining nominal amount of EUR 19 million of the Bonds plus accrued and unpaid interest to be written down to zero.

In May 2021, the proposed restructuring was approved by the holders of the Bonds through a written procedure and closed subsequently on 29 June 2021 with the Bonds being repaid on 7 July 2021.

40. Accounting policies

The 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, including accounting for intragroup receivables and their impairment, do not in any material respect deviate from the Group accounting principles described in Note 3.

Shares in subsidiaries are accounted by the Parent at cost less impairment. For impairment accounting principles refer to Note 3.16. Dividends from the subsidiary are recognised in profit or loss when the Parent's right to receive the dividends is established.

41. Revenue

Revenue of the Parent includes management fee income received from Group companies in the amount of EUR 149 thousand (2019: EUR 116 thousand).

42. Employee benefits expense

In thousands of EUR	2020	2019
Wages and salaries	94	107
Social security contributions	19	23
Total	**113**	**130**

As of 31 December 2020, the Parent Company employed 2 people, all of whom are members of the Board of Directors (31 December 2019: 2 people). For details on Board remuneration and related social security costs in the reporting period refer to Note 11 of the consolidated financial statements.

43. Other operating expenses

In thousands of EUR	2020	2019
Professional services	872	440
Professional services from Group companies	798	80
Travel expenses recharged by Group companies	3	33
Bank services	1	6
IT and communication	3	3
Insurance	3	3
Other operating expenses	3	133
Other operating expenses to Group companies	-	9
Total	**1,683**	**707**

44. Finance income

In thousands of EUR	2020	2019
Interest income under the effective interest method from Group companies on receivables from Group companies	2,305	2,408
Foreign exchange gains	4	2
Total	**2,309**	**2,410**

45. Finance costs

In thousands of EUR	2020	2019
Interest expense on financial liabilities measured at amortised cost	3,841	3,725
Foreign exchange losses	7	3
Total	**3,848**	**3,728**

EUR 3,841 thousand of interest expense in the reporting period consist of EUR 3,217 thousand of interest expense on loans and borrowings, EUR 624 thousand of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value.

EUR 3,725 thousand of interest expense in 2019 year consist of EUR 3,158 thousand of interest expense on loans and borrowings, EUR 567 thousand of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value.

46. Income tax expense

The income tax rate applied to the Parent in the reporting period was 21.4% (2019: 21.4%).

The major components of income tax expense for the period ended 31 December are:

In thousands of EUR	2020	2019
Current tax expense	**-**	**-**
Deferred tax expense	**(38)**	**13**
Origination and reversal of temporary differences	(38)	13
Income tax expense reported in profit or loss	**(38)**	**13**

Reconciliation between tax expense and the product of accounting profit multiplied by the Parent's domestic tax rate for the period ended 31 December is as follows:

In thousands of EUR	2020	2019
Loss before tax	**(3,274)**	**(1,937)**
Tax using the Parent's domestic tax rate	(701)	(415)
Tax effect of:		
Tax-exempt income	-	-
Other differences	-	16
Change in unrecognized deferred tax	663	412
Income tax expense reported in profit or loss	**(38)**	**13**

Movements in deferred tax balances are as follows:

			31 December 2020		
In thousands of EUR	Net balance at 31 December 2019	Recognised in profit or loss	Net	Deferred tax assets	Deferred tax liabilities
Loans and other receivables, including contract assets	141	(96)	45	45	-
Loans and other payables	(154)	134	(20)	-	(20)
Tax losses carried forward	955	663	1,618	1,618	-
Unrecognised tax losses	(955)	(663)	(1,618)	(1,618)	-
Tax assets (liabilities) before set-off	**(13)**	**38**	**25**	**45**	**(20)**
Set-off of tax	**-**	**-**	**-**	**(20)**	**20**
Net tax assets (liabilities)	**(13)**	**38**	**25**	**25**	**-**

In thousands of EUR	Net balance at 31 December 2018	Recognised in profit or loss	Net	Deferred tax assets	Deferred tax liabilities
			31 December 2019		
Loans and other receivables, including contract assets	-	141	141	141	-
Loans and other payables	-	(154)	(154)	-	(154)
Tax losses carried forward	543	412	955	955	-
Unrecognised tax losses	(543)	(412)	(955)	(955)	-
Tax assets (liabilities) before set-off	**-**	**(13)**	**(13)**	**141**	**(154)**
Set-off of tax	**-**	**-**	**-**	**(141)**	**141**
Net tax assets (liabilities)	**-**	**-**	**(13)**	**-**	**(13)**

No deferred tax asset was recognised by the Parent company, as it was not probable that future taxable profit will be available against which the Company can use the benefits therefrom. Deferred tax assets have not been recognised in respect of the following items:

Corporate tax

In thousands of EUR	2020 Gross amount	Tax effect
Tax losses	7,559	1,618

In thousands of EUR	2019 Gross amount	Tax effect
Tax losses	4,464	955

Under current tax legislation tax losses for which no deferred tax asset was recognised expire as follows:

In thousands of EUR	31 December 2020	Expiry period
Expire	1,880	-
Never expire	5,679	-
Total	**7,559**	**-**

In thousands of EUR	31 December 2019	Expiry period
Expire	840	-
Never expire	3,624	-
Total	**4,464**	**-**

47. Shares in subsidiaries

In thousands of EUR	Registration number	Registered address
SIA European Lingerie Group	40203062787	Ziemelu iela 19, Liepaja, LV-3405
Felina France S.a.r.l.	31756441700051	21 Avenue de L'europe 67300 Schiltigheim
Senselle OOO	100168111	Starovilenskaya str, 131, r.3, Minsk, Belarus

In thousands of EUR	Share	31 December 2020	31 December 2019
SIA European Lingerie Group	100%	43,500	43,500
Felina France S.a.r.l.	100%	2,809	2,809
Senselle OOO	100%	19	19
Total		**46,328**	**46,328**

In January 2019, the Company acquired Yustina OOO (later renamed to Senselle OOO) for EUR 19 thousand (see Note 32 for more details).

In January 2019, the Company established a new subsidiary Brafetch GmbH with the investment into share capital of EUR 25 thousand. The subsidiary was later sold in June 2019 (see Note 33 for more details).

48. Other receivables

In thousands of EUR	Note	2020	2019
Financial other receivables			
Loans to Group companies	55	33,544	33,277
Other receivables due from related parties	55	154	195
Allowance for other receivables due from related parties		(129)	-
Other receivables due from Group companies	55	8	166
Other receivables		105	5
		33,682	**33,643**
Non-financial other receivables			
VAT receivable		-	6
Deferred expenses		29	2
		29	**8**
Total		**33,711**	**33,651**
Non-current		6,217	33,277
Current		27,494	374
Total		**33,711**	**33,651**

For terms and conditions relating to related party receivables, refer to Note 55.

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 54.

49. Cash and bank

In thousands of EUR	2020	2019
Bank balances	23	6
Total	**23**	**6**

Cash and bank balances reported in the statement of cash flows are the same as in the statement of financial position.

50. Capital and reserves

Restricted equity

Restricted equity may not be reduced through dividends. Restricted equity includes share capital.

Share capital

Number of shares	2020	2019
Opening balance	60,000	60,000
In issue at 31 December – fully paid	**60,000**	**60,000**
Nominal value of one share, EUR	1	1

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

Non-restricted equity

The following items comprise non-restricted equity – the amount that is available for shareholder dividends.

Other paid in capital

Other paid in capital in the amount of EUR 43,500 thousand was formed as a result of the received unconditional shareholder contribution whereby Myrtyle Ventures Ltd, the previous shareholder of the Parent, contributed SIA European Lingerie Group shares into the equity of the Company.

Net income

Net income includes net loss for the reporting period of EUR 3,236 thousand (2019: EUR 1,950 thousand).

Dividends

No dividends were proposed by the Board of Directors after the reporting date.

51. Going concern

As at 31 December 2020 net loss of the Company for the period ended 31 December 2020 amounted to EUR 3,236 thousand.

Management is confident that the Company is a going concern and net loss incurred in the reporting period was caused by interest expense on bonds and professional services related to renegotiation of the Bond Terms and Conditions.

The ability to continue as a going concern also depended on the completion of the bond restructuring process of the group, which was successfully signed in April 2021 and closed in June 2021. For additional information refer to Note 24.

52. Loans and borrowings

As at 31 December 2020 loans and borrowings comprise secured bonds in the amount of EUR 39,904 thousand (31 December 2019: EUR 39,280 thousand) and loans from Group companies in the amount of EUR 723 thousand (31 December 2019: EUR 723 thousand) and loan from shareholder in the amount of EUR 300 thousand (31 December 2019: none). For details on loan from shareholder refer to Note 36.

Information about the Company's exposure to interest rate, foreign currency and liquidity risks is included in Note 54.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

				Carrying amount	
In thousands of EUR	Currency	Nominal interest rate	Year of maturity	2020	2019
Secured bonds	EUR	3m Euribor + 7.75%	2021	39,904	39,280
Loans from Group Companies	EUR	4.00%	2024	723	723
Loan from shareholder	EUR	15.00%	2021	300	-
Total interest-bearing liabilities				**40,927**	**40,003**

Reconciliation of movements of loans and borrowings to cash flows arising from financing activities

	2020			2019	
In thousands of EUR	Bonds	Loans from Group companies	Loan from shareholder	Bonds	Loans from Group companies
Balance at 1 January	**39,616**	**738**	**-**	**39,049**	**-**
Changes from financing cash flows					
Proceeds from loans and borrowings	-	-	300	-	723
Total changes from financing cash flows	**-**	**-**	**300**	**-**	**-**
Other changes					
Liability-related					
Interest expense	3,151	29	37	3,143	15
Interest expense (amortisation of transaction costs)	624	-	-	567	-
Interest paid	(809)	-	-	(3,143)	-
Total liability-related other changes	**2,966**	**29**	**37**	**567**	**15**
Balance at 31 December	**42,582**	**767**	**337**	**39,616**	**738**

53. Other liabilities

In thousands of EUR	2020	2019
Financial other payables		
Accrued interest on bonds	2,678	336
Payables to personnel	130	103
Other payables to Group companies	75	158
Other accrued expenses	63	105
Accrued interest on loans from Group companies	44	15
Accrued interest on loans from related parties	37	-
Other payables to related parties	9	-
Other payables to third parties	134	65
	3,170	**782**
Non-financial other payables		
Social contributions payable	14	17
VAT payable	13	-
Personal income tax payable	8	10
	35	**27**
Total	**3,205**	**809**
Non-current	-	-
Current	3,205	809
Total	**3,205**	**809**

For terms and conditions relating to related party receivables, refer to Note 55.

Information about the Company's exposure to liquidity risk is included in Note 54.

54. Financial instruments – Fair values and risk management

Accounting classifications and fair values

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

In thousands of EUR	*Note*	Carrying amount 31 December 2020	Carrying amount 31 December 2019	Fair value 31 December 2020	Fair value 31 December 2019	Fair value level
Financial assets not measured at fair value						
Financial assets at amortised cost						
Loans to Group companies	*48*	6,217	33,277	4,622	31,390	Level 3
		6,217	**33,277**	**4,622**	**31,390**	
Financial liabilities not measured at fair value						
Financial liabilities at amortised cost						
Bonds and interest accrued		42,582	39,616	42,582	40,466	Level 3
Loans from Group Companies and interest accrued		767	738	648	599	Level 3
		43,349	**40,354**	**43,230**	**41,065**	

Measurement of fair values

The fair value of financial investments was estimated as the present value of future cash flows, discounted at a discount rate of 7.75%.

The fair value of bonds was estimated as present value of expected cash flows, discounted at a discount rate of 7.75%.

Financial risk management

The Company has exposure to the following risks arising from financial instruments:

e) credit risk

f) liquidity risk

g) interest rate risk

(vi) Risk management framework

For general principles of the Group's risk management refer to Note 31 of the consolidated financial statements.

(vii) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises from the Company's loans and other receivables from its subsidiaries.

At 31 December, the exposure to credit risk for other receivables by geographic regions was as follows:

In thousands of EUR	2020	2019
Baltic States	25	191
Germany	8	139
Other countries	105	36
Total	**138**	**366**

The Company uses the same approach in the calculation of ECLs of other receivables as the Group, including intragroup receivables (refer to Note 31 (ii)). The Company recognised EUR 129 thousand of impairment allowance related to receivables from related parties as of 31 December 2020 (31 December 2019: none).

Loans issued to Group companies

Loans issued by the Company include only loans issued to its subsidiaries (refer to Note 55 for more details).

The Company monitors changes in credit risk by regularly reviewing financial statements of debtors.

The exposure to credit risk for loans issued and measured at amortised cost at the reporting date by geographic region was as follows:

In thousands of EUR	2020	2019
Germany	16,368	15,562
Baltic States	13,128	13,732
France	3,873	3,815
Belarus	175	168
Total	**33,544**	**33,277**

Assets measured at amortised cost comprising loans were subject to a 12-month ECL allowance. No loss allowance was recognised for loans issued as of 31 December 2020 and 2019.

The Company holds no collateral in respect of loans issued.

Cash and cash equivalents

The Company held cash and cash equivalents of EUR 23 thousand as at 31 December 2020 (31 December 2019: EUR 6 thousand). Main banks used by the Company are approved by the Board of Directors. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A2 to Baa3, based on Moody's ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

(viii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the remaining contractual maturities of financial liabilities at 31 December 2020. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements.

In thousands of EUR	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	Total
Non-derivative financial liabilities						
Secured bonds and accrued interest	42,582	42,867	-	-	-	42,867
Loans from Group Companies and accrued interest	767	-	-	-	883	883
Loans from shareholder and accrued interest	337	381	-	-	-	381
Other payables	411	411	-	-	-	411
	44,097	**43,659**	**-**	**-**	**883**	**44,542**

The following are the remaining contractual maturities of financial liabilities at 31 December 2019:

In thousands of EUR	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	Total
Non-derivative financial liabilities						
Secured bonds and accrued interest	39,616	1,559	1,584	40,792	-	43,935
Loans from Group Companies and accrued interest	738	-	-	-	883	883
Other payables	431	431	-	-	-	431
	40,785	**1,990**	**1,584**	**40,792**	**883**	**45,249**

(ix) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term assets with fixed interest rates. The Company does not hedge the interest rate risk, but the management of the Company regularly reviews the significance of the risk and will apply risk hedging instruments in case the risk becomes high.

Exposure to interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments as reported to the management of the Group is as follows:

In thousands of EUR	2020	2019
Fixed-rate instruments		
Financial assets	4,048	3,983
Financial liabilities	(1,104)	(738)
Net position	**2,944**	**3,245**
Variable-rate instruments		
Financial assets	29,496	29,294
Financial liabilities	(42,582)	(39,616)
Net position	**(13,086)**	**(10,322)**

Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Company does not use derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting dates would not affect profit or loss. A change of 100 basis points in interest rates would have increased or decreased equity by EUR 23 thousand after tax as at 31 December 2020 (31 December 2019: EUR 26 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Cash flow sensitivity analysis for variable-rate instruments

The Company monitors the sensitivity of its interest-bearing loans and borrowings to changes in interest rates and the effect of such changes on the Company's profit or loss and equity. A reasonably possible change of 100 basis points in interest rates at the reporting dates would have increased or decreased equity and profit or loss by EUR 103 thousand at 31 December 2020 (31 December 2019: EUR 81 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

55. Related parties

Transactions with key management personnel

Key management personnel compensation for the reporting period amounted to EUR 113 thousand and comprised only short-term employee benefits in the form of salaries and social contributions (2019: EUR 130 thousand).

Other related party transactions

In thousands of EUR	Transaction values for 2020	Balance outstanding at 31 December 2020	Transaction values for 2019	Balance outstanding at 31 December 2019
Sales of goods and services				
Subsidiaries	190	-	218	-
Purchases of goods and services				
Shareholders	-	-	5	-
Subsidiaries	801	-	122	-
Other related parties	164	-	177	-
Interest income accrued during the year				
Subsidiaries	2,305	-	2,408	-
Interest expense accrued during the period				
Subsidiaries	29	-	15	-
Shareholders	36	-	-	-
Loans granted				
Subsidiaries	10	-	396	-
Loans received				
Shareholders	300	-	-	-
Subsidiaries	-	-	723	-
Other receivables				
Shareholders	-	25	-	25
Subsidiaries	-	8	-	166
Other related parties	-	129	-	170
Allowance for other receivables				
Other related parties	-	(129)	-	-
Loans receivable				
Subsidiaries	-	27,322	-	28,579
Interest receivable				
Subsidiaries	-	6,222	-	4,698
Loans payable				
Shareholders	-	300	-	-
Subsidiaries	-	723	-	723
Interest payable				
Shareholders	-	37	-	-
Subsidiaries	-	44	-	15
Other payables				
Subsidiaries	-	75	-	158
Other related parties	-	9	-	-

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

During 2018, EUR 19,799 thousand loan was issued to LSEZ Lauma Fabrics SIA. According to the loan agreement the loan carries the interest rate of EURIBOR + 8.25% per annum and matures in 2021. Part of the loan was subsequently assigned to E|L|B GmbH in 2018, part of the loan was repaid during 2019-2020. The loan carrying amount along with accrued interest was EUR 1,731 thousand as of 31 December 2020 (31 December 2019: EUR 1,854 thousand).

During 2018, EUR 12,577 thousand loan was issued to SIA European Lingerie Group. According to the loan agreement the loan carries the interest rate of EURIBOR + 8.25% per annum and major part of it matures in 2021, with the rest in 2025. During 2019 the amount of loan and accrued interest increased after additional assignment from E|L|B GmbH, and part of the loan was repaid during 2019-2020. The loan carrying amount along with accrued interest was EUR 11,397 thousand as of 31 December 2020 (31 December 2019: EUR 11,878 thousand).

During 2018, EUR 4,446 thousand loan was issued to E|L|B GmbH and another loan was assigned to E|L|B GmbH from LSEZ Lauma Fabrics SIA. According to the loan agreements the interest rates range from EURIBOR + 7.5% to EURIBOR + 8.25% per annum, and major part of loans matures in 2021 with the rest - in 2025. Part of the loan and accrued interest were assigned to SIA European Lingerie Group and part of the loan was repaid during 2019. The loan carrying amount along with accrued interest was EUR 16,368 thousand as of 31 December 2020 (31 December 2019: 15,562 thousand).

During 2018, EUR 3,400 thousand loan was issued to Felina France S.a.r.l. According to the loan agreement the loan carries the interest rate of 8% per annum and matures in 2033. Part of the loan was repaid during 2020. The loan carrying amount along with accrued interest was EUR 3,874 thousand as of 31 December 2020 (31 December 2019: 3,815 thousand).

During 2018, EUR 150 thousand loan was issued to Dessus-Dessous S.A.S. According to the loan agreement the loan carries the interest rate of 2.9% per annum and matures in 2019. The loan carrying amount along with accrued interest was EUR 150 thousand as of 31 December 2018. The loan was fully repaid during 2019.

During 2019, EUR 169 thousand loan was issued to Senselle OOO. According to the loan agreement the loan carries the interest rate of 4.0% per annum and matures in 2024. The loan carrying amount along with accrued interest was EUR 174 thousand as of 31 December 2020 (31 December 2019: EUR 168 thousand).

During 2019, the Company received EUR 723 thousand loan from Felina GmbH. According to the loan agreement the loan carries the interest rate of 4.0% per annum and matures in 2024. The loan carrying amount along with accrued interest was EUR 767 thousand as of 31 December 2020 (31 December 2019: EUR 738 thousand).

During 2020, the Company received a loan from shareholder, Helike Holdings OU, in the amount of EUR 300 thousand during 2020. The loan matures on 31 December 2021 and carries the interest rate of 15% per annum. The loan is subordinated to the bonds. The loan carrying amount along with accrued interest was EUR 337 thousand as of 31 December 2020 (31 December 2019: none).

56. Audit remuneration

Audit remuneration amounted to EUR 113 thousand in the reporting period (2019: EUR 38 thousand) and comprised audit fees only. There were no other services provided to the Company by Ernst & Young AB in 2020.

57. Subsequent events

Refer to Note 38 of the consolidated financial statements for subsequent events.

SIGNING OF THE ANNUAL REPORT

The undersigned signatories give their assurance that the consolidated financial statements and Annual Report have been prepared in accordance with the IFRS standards adopted by the EU and generally accepted accounting policies and provide a true and fair view of the Group's and the company's financial position and results, and the Board of Directors' Report on the Group provides a true and fair overview of the development of the Group's and the Company's business, position and results and describe significant risks and uncertainties faced by the companies included in the Group.

Stockholm, 28 July 2021

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

AUDITOR'S STATEMENT IN THE ANNUAL REPORT

Our audit report was submitted on 29 July 2021.

Oskar Wall
Authorised Public Accountant
Ernst & Young AB

AUDITOR'S REPORT

To the general meeting of the shareholders of European Lingerie Group AB (publ), corporate identity number 559135-0136

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of European Lingerie Group AB for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 5-93 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-4. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of European Lingerie Group AB for the year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Comment

The annual report has been submitted to us after the time specified in the law. The annual report was not submitted at such a time that it is available, according to chapter 7, § 10 of the Swedish Companies Act, to hold an Annual General Meeting within six months after the end of the financial year.

Stockholm 29 July 2021

Ernst & Young AB

Oskar Wall
Authorized Public Accountant

E | L | G

EUROPEAN LINGERIE GROUP

www.elg-corporate.com