E | L | G

EUROPEAN LINGERIE
GROUP

EUROPEAN LINGERIE GROUP AB

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

Information on the Company	3
Management Report	5
Corporate Governance Report	12
Sustainability Report	15
Consolidated statement of profit or loss and other comprehensive income	17
Consolidated statement of financial position	18
Consolidated statement of changes in equity	19
Consolidated statement of cash flows	20
Notes to the financial statements	22
Parent Company statement of profit or loss and other comprehensive income	83
Parent Company statement of financial position	84
Parent Company statement of changes in equity	85
Parent Company statement of cash flows	86
Notes to the Parent Company financial statement	87
Auditor's report	97

INFORMATION ON THE COMPANY

Name of the company	*European Lingerie Group AB (from 29 January 2018)* *Goldcup 15769 AB (until 29 January 2018)*
Legal status of the company	*Public Limited Liability Company*
Number, place and date of registration	*559135-0136, Stockholm, 23 November 2017*
Legal and postal address	*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* *(from 11 October 2019)* *Indrek Rahumaa, Chairman of the Board* *(until 11 October 2019)* *Indrek Rahumaa, Member of the Board* *(from 11 October 2019)* *Dmitry Ditchkovsky, Board Member* *Fredrik Synnerstad, Board Member* *(until 11 October 2019)* *Peter Partma, Board Member* *(until 11 October 2019)*
Managing director	*Indrek Rahumaa (from 11 October 2019)* *Peter Partma (until 11 October 2019)*
Financial year	*1 January 2019 – 31 December 2019*
Reporting period	*1 January 2019 – 31 December 2019*

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 subsidiaries	*SIA European Lingerie Group* *(100.0% from 19 February 2018)* *Felina France S.a.r.l.* *(100.0% from 16 May 2018)* *Brafetch GmbH* *(100% from 29 January 2019 until 14 June 2019)* *Senselle OOO* *(100% from 2 January 2019)*
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 2019 the Group had 20 wholly owned subsidiaries, a representative office located in Russia and a joint venture company located in Latvia.

Type of operations

European Lingerie Group AB is 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. It has successfully embarked upon a growth strategy involving international merger & acquisition targets and building size, and is today a renowned and strong player in the European intimate apparel industry.

The Group is headquartered in Sweden, European Union. The Group operates its own production facilities in Latvia, Hungary, 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 2019 exceeded EUR 77 million and the combined workforce is over 1,200 people.

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

Acquisition of Yustina OOO

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

Listing of bonds

The bonds issued by the Parent were approved for listing on Nasdaq Stockholm Corporate Bond list in December 2018 and are traded since 2 January 2019.

Separation of medical business

In May 2019 LSEZ Lauma Fabrics SIA established a new subsidiary SIA Lauma Medical in order to separate its medical business into it. The separation was done for allowing the business to develop and be led independently as it focuses on a different market, product development process, etc.

Management change

In October 2019, the major shareholder of European Lingerie Group Mr. Indrek Rahumaa stepped in as an active CEO of the Group to lead the transformation required in order to improve profitability and grow the business. Mr Peter Partma has decided to step down as CEO of the Group and Member of the Board of Directors.

Situation with the bonds

The Group reported in the reports for nine months and third quarter 2019 and for twelve months and fourth quarter 2019 that the Group's Net Interest Bearing Debt to EBITDA ratio exceeded the maximum 4.25 allowed under the maintenance test of the Original Bond Terms and Conditions issued on 22 February 2018. On 16 January 2020, the Parent completed a written procedure under the Terms and Conditions to waive the maintenance test default for the reference period ending on 30 September 2019 and to adjust the maintenance test for the reference period ending on 31 December 2019. However, it was a condition for the amendments to the Terms and Conditions to come into effect that a capital contribution by way of equity and/or subordinated loans is provided to the Group.

Due to COVID-19 pandemic, the Group has not been able to raise the required amount of equity in full. 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 2019, have not come into effect, which has resulted in the continuing breach of the maintenance test.

In order to fulfil the conditions precedent of the Amended Bond Terms and Conditions, the Group has also provided to Intertrust (Sweden) AB a market valuation dated 30 January 2020 of the Group's factory and real estate property in Liepaja, Latvia, prepared by Latio LLC, and granted additional security over the trademarks Felina and Conturelle and over E|L|B GmbH and Felina Hungaria Kft shares.

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. On 29 July 2020 it reached an agreement on the standstill with the Bondholder Committee (representing approximately 60 per cent of the total nominal amount of the bonds) regarding the Group's defaults under the Terms and Conditions as well as a cooperation between the Group and the Bondholder Committee to explore and execute a potential restructuring of the Group and the Bonds. A restructuring may include, inter alia, new investor(s) coming in, and the write down of the nominal amount and interest under the Bonds in combination with a cash repayment and/or debt to equity swap. The long stop date for the standstill is 30 November 2020 (the "Standstill Period"), however the Standstill Period may be extended or, if certain conditions of the standstill agreement are not met, lapse at any time prior to such date.

It is noted that the completion of any restructuring measures agreed upon during the Standstill Period is subject to the approval of a written procedure to be held in accordance with the Terms and Conditions.

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

- not to instruct Intertrust (Sweden) AB (the "Agent") to accelerate the bonds due to the Group's failure to (a) comply with the maintenance test covenant for Q3 and Q4 2019 as well as Q1 and Q2 2020, (b) pay interest in respect of the bonds on the Interest Payment Date for the interest period ending on 22 May 2020 an on 22 August 2020, (c) comply with Clause 11.1(a)(i) *(Information from the Issuer)* due to the fact that the Parent has not timely delivered the Audited Financial Report for the financial year 2019, 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 Bondholder Committee has also, provided that certain information is provided to them, agreed to the following undertaking during the Standstill Period (a) to waive any breach of Clause 13.6 *(Clean Down Period)*, (b) to confirm that costs related to the contemplated restructuring of the Group shall be considered an extraordinary item and be carved out as a cost from the EBITDA definition, (c) to waive any breach of the use of the Permitted Debt baskets in item "(b) Financial Leases", (j) Working Capital Facility" and "(o) other" of the Permitted Debt definition so that the total basket is EUR 6,000,000 but not split on items (b), (j) and (o) and (d) to waive any breach of Clause 13.8 *(Negative Pledge)* due to the additional provided specific security to the aid loans.

COVID-19 outbreak

In December 2019, an outbreak of coronavirus 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 rise in the number of cases, most countries have declared a state of emergency, during which time a series of restrictive measures have been taken to limit the spread of the virus.

Although the restrictions were temporary and mainly were in place during March-June 2020, these events had a negative impact on the Group's financial position and results of operations in 2020. In order to minimize the extent of the negative impact, the Group has taken various response measures and implemented those in its subsidiaries. Refer to Note 39 for the details on the expected impact of the Covid-19 outbreak on the Group's operations in 2020 and taken measures.

Financial result

Net sales of the Group amounted to EUR 77,554 thousand in 2019 (2018: EUR 73,689 thousand). Its core markets were the same as previous year and included Germany, Spain, France, Poland, Benelux countries, Baltic countries and CIS countries (Russia, Belarus and Ukraine). Net sales were higher than previous year which was mainly the contribution of Dessus-Dessous S.A.S. operating a full year within the Group (2018: only second half of the year), growing revenue of new Senselle brand and growing sales in CIS region, Russia and Belarus in particular. Despite the Group demonstrated growth in sales, the sales result was below management's expectations due to the continuing pace of closure of small specialized retail shops in the Southern and Central Europe as well as the slow-down of the macroeconomy in the most European markets.

Reported EBITDA amounted to EUR 8,184 thousand (2018: EUR 6,405 thousand) and net result was a loss of EUR 220 thousand (2018: loss of EUR 2,527 thousand). Net loss was a result of:

- *Restructuring of brands/subsidiaries* 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.
- *Management contract termination costs* related to contract terminations with Mr Peter Patrtma, Mr Christian Stolba and Ms Brigitte Hardt.
- *Transaction costs* related to acquisition of Yustina OOO (renamed to Senselle OOO) and costs related to renegotiation of the Bond Terms and Conditions.
- *Other costs* 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 initially proposed names were objected by another swimwear company, which had these registered as trademarks for their products. The objection was amicably settled with the claimant and a respective compensation was paid.
- *Interest expense* related to the amortization of transaction costs on bonds issue.

Financial position

At 31 December 2019 consolidated total assets amounted to EUR 70,386 thousand representing an increase of 7.5% (EUR 4,917 thousand) to the position as of previous year end. The increase is explained mainly by adoption of IFRS 16 Leases on 1 January 2019 resulting in the recognition of right-of-use assets (EUR 4,220 thousand as of 31 December 2019). Additional increase was a result of growing working capital, i.e. inventories and trade and other receivables.

Inventories balance increased by 7.2% (EUR 1,465 thousand) compared to the balance at 31 December 2018. The increase mainly related to the newly contracted consignment arrangements with customers in 2019 as well as the production and delivery of new products and collections, in particular Senselle by Felina and Felina 1885 lingerie collections, which required additional working capital in inventories. Current trade and other receivables were higher than previous year by 5.9% (EUR 822 thousand) as a result of higher sales in Q4 2019 compared to Q4 2018.

Loans and borrowings at 31 December 2019 increased by EUR 5,903 thousand compared to 31 December 2018, which is explained by:

- adoption of IFRS 16 Leases on 1 January 2019 resulting in additional leases of EUR 3,159 thousand at 31 December 2019,
- increase in the utilised credit line facilities by EUR 1,573 thousand in order to finance working capital of the new product collections and consignment arrangements,
- new leases for the stenter equipment acquired by the Latvian subsidiary of the Group, LSEZ Lauma Fabrics SIA (lease liability of EUR 548 thousand at 31 December 2019).

Cash flows

Cash generated by operating activities amounted to EUR 5,861 thousand in 2019 and was used for payment of interest on loans and borrowings and income taxes resulting in net cash inflow from operating activities of EUR 1,890 thousand against net cash outflow of EUR 711 thousand in 2018.

During the reporting year, the Group invested EUR 2,921 thousand into property, plant and equipment and intangible assets with the largest investments made into the stenter, spacer molding and circular knitting equipment as well as 2 new knitting machines in lace and racheltronic technology in LSEZ Lauma Fabrics SIA. The Group also commenced Magento and Open ERP platform migration project in Dessus-Dessous S.A.S.

Cash flows from financing activities amounted to EUR 971 thousand in 2019 with credit line facilities being the main source of financing. The Group also received EUR 595 thousand cash inflows as a result of sale and leaseback transaction for the newly acquired stenter equipment undertaken by LSEZ Lauma Fabrics SIA (see Note 29 for more details).

Further development of the Group

The Group has had difficult last 2 years after the acquisition of Felina group and Dessus-Dessous S.A.S. and fluctuations in the various core markets and distribution channels of the lingerie industry in general. It continues realising its strategy of the vertical integration, which takes time and bears costs during the transformation phase of the previous processes. In 2019, the Group's new product lines, i.e. the backup

brand Senselle by Felina and Felina swimwear, started bringing volumes and the contribution of the new collections to total sales will continue throughout the whole year.

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

Due to the dropped profitability, the Group has prepared an action plan with specific measures aimed at recovery of the initial profitability and has a sustainable business model for the medium and long-term. The measures were approved by the bondholders in January 2020 and preparatory work for their implementation has started already.

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 39,280 thousand of short-term bonds liability) by EUR 20,691 thousand. The Group has a strong ability to meet its short-term obligations. Adjusted current ratio of the Group as at 31 December 2019 was 2.2 and Quick ratio was 1.0. The adjusted ratios exclude EUR 39,280 thousand of secured bonds from their calculation, as they were reclassified to short-term loans and borrowings as a result of the breach of the bond covenant in Q3 2019 and waiver obtained in respect of this breach after end of the reporting period, i.e.in January 2020.

The financial risk management is further disclosed in Note 32.

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 39 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	2019	2018
Other paid in capital	43,500	43,500
Net income carried forward	(2,419)	-
Loss for the year	(1,950)	(2,419)
Total	**39,131**	**41,081**

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

In thousands of EUR	2019	2018
To be carried forward	39,131	41,081
Total	**39,131**	**41,081**

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 2019 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
- Fredrik Synnerstad, Member of the Board (until 11 October 2019)
- Peter Partma, Member of the Board (until 11 October 2019)

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 knowhow 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.

Fredrik Synnerstad has years of extensive experience in finance as a business analyst, management consultant and as CEO. He served with McKinsey for several years before founding a number of companies active in the finance sector, including Actagon AB, a corporate finance advisor with business in more than 70 countries and Citadel AB, an investment company. He has a Master's degree in finance and international business from Stockholm School of Economics. Fredrik was the Board Member of the

Company since 2018 until 11 October 2019.

Peter Partma is a widely respected manager whose experience includes managing the iconic Tsum department store in Moscow (2008-2015) and overseeing the opening of the first IKEA store in Russia. Peter was responsible for the daily management of the Group with main focus on business development, sales and profitability. Peter has an executive MBA from Lund University. He was the Board Member and the CEO since 2018 until 11 October 2019, when he decided to step down.

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 2019. KPMG AB had been the auditor of the Group during previous years.

SUSTAINABILITY REPORT

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

The report has been approved on August 17, 2020 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 2019

Consolidated statement of profit or loss and other comprehensive income

For the period ended 31 December

In thousands of EUR	Note	2019	2018 Restated*
Revenue	*8,9*	**77,554**	**73,689**
Other operating income	*10*	2,431	1,540
Changes in inventories of finished goods and work in progress		1,819	897
Raw materials and services	*11*	(29,615)	(25,640)
Employee benefits expense	*12*	(26,089)	(24,856)
Depreciation, amortisation and impairment of intangible assets	*17, 18, 19*	(4,131)	(3,111)
(Impairment loss)/reversal of impairment loss on trade and other receivables	*32 (ii)*	194	(84)
Other operating expenses	*13*	(18,110)	(19,141)
Operating profit		**4,053**	**3,294**
Finance income	*14*	455	386
Finance costs	*15*	(4,607)	(4,403)
Net finance costs		**(4,152)**	**(4,017)**
Profit/(loss) before income tax		**(99)**	**(723)**
Income tax expense	*16*	(121)	(1,804)
Loss for the year attributable to owners of the Parent Company		**(220)**	**(2,527)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability/(asset)	*27*	227	461
Related income tax	*16*	(70)	(50)
		157	**411**
Items that are or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		116	(332)
		116	**(332)**
Other comprehensive income, net of tax		**273**	**79**
Total comprehensive income		**53**	**(2,448)**

* Refer to Note 7 for the explanation of the figures restated in 2018.

The accompanying notes on pages 22 to 80 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

Consolidated statement of financial position

As at 31 December

In thousands of EUR	*Note*	2019	2018
Assets			
Property, plant and equipment	*17*	11,066	11,845
Right-of-use assets	*18*	4,306	-
Intangible assets	*19*	14,573	15,207
Deferred tax assets	*16*	1,926	2,307
Other receivables	*22*	717	388
Total non-current assets		**32,588**	**29,747**
Inventories	*21*	20,471	19,006
Current tax assets		280	384
Trade and other receivables	*22*	14,854	14,032
Contract assets	*9*	29	26
Prepayments		799	939
Cash and cash equivalents	*23*	1,365	1,335
Total current assets		**37,798**	**35,722**
Total assets		**70,386**	**65,469**
Equity			
Share capital	*24*	60	60
Reserves	*24*	(216)	(332)
Retained earnings		4,408	5,086
Total equity attributable to equity holders of the parent		**4,252**	**4,814**
Liabilities			
Loans and borrowings	29	2,666	38,767
Net employee defined benefit liability	*27*	3,336	3,808
Deferred income	*31*	449	570
Provisions	*28*	221	213
Other payables	*30*	92	-
Deferred tax liabilities	*16*	2,983	3,663
Total non-current liabilities		**9,747**	**47,021**
Loans and borrowings	29	44,330	2,326
Trade and other payables	*30*	11,513	10,519
Contract liabilities	*9*	192	292
Current tax liabilities		191	170
Provisions	*28*	46	111
Deferred income	*31*	115	216
Total current liabilities		**56,387**	**13,634**
Total liabilities		**66,134**	**60,655**
Total equity and liabilities		**70,386**	**65,469**

The accompanying notes on pages 22 to 80 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

Consolidated statement of changes in equity

For the period ended 31 December

		Attributable to owners of the Parent Company			
In thousands of EUR	*Note*	Share capital	Translation reserve	Retained earnings	Total equity
Balance at 23 November 2017		**-**	**-**	**-**	**-**
Total comprehensive income					
Loss for the period		-	-	(2,527)	(2,527)
Other comprehensive income		-	(332)	411	79
Total comprehensive income		**-**	**(332)**	**(2,116)**	**(2,448)**
Contributions and distributions					
Issue of ordinary shares	*24*	60	-	-	60
Acquisition of a subsidiary under common control		-	-	6,838	6,838
Equity-settled share-based payment		-	-	364	364
Total contributions and distributions		**60**	**-**	**7,202**	**7,262**
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	*38*	-	-	(615)	(615)
Total contributions and distributions		**-**	**-**	**(615)**	**(615)**
Balance at 31 December 2019		**60**	**(216)**	**4,408**	**4,252**

The accompanying notes on pages 22 to 80 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

Consolidated statement of cash flows

For the period ended 31 December

In thousands of EUR	*Note*	2019	2018
Cash flows from operating activities			
Loss for the reporting year		**(220)**	**(2,527)**
Adjustments for:			
Depreciation	*17, 18*	3,224	2,369
Amortization	*19*	725	742
Impairment losses on goodwill	*19*	182	-
(Reversal of) impairment losses on trade and other receivables	*32 (ii)*	(194)	84
Income from government grants	*10*	(226)	(306)
Finance income	*14*	(51)	(53)
Finance costs	*15*	4,228	3,929
Foreign exchange gains	*14*	(404)	(333)
Foreign exchange losses	*15*	379	474
Gain on bargain purchase	*10*	(22)	-
Gain on disposal of subsidiary	*10*	(217)	-
Net loss on disposal of property, plant and equipment, intangible assets	*10, 13*	71	109
Equity-settled share-based payment transactions	*38*	(615)	364
Gain on termination of lease agreement		(1)	-
Income tax expense	*16*	121	1,804
Changes in:			
Inventories		(1,463)	(1,337)
Contract assets		(3)	(11)
Trade and other receivables		(745)	(772)
Prepayments		140	(336)
Trade and other payables		1,411	(332)
Contract liabilities		(100)	92
Provisions		(57)	(122)
Net employee defined benefit liability		(302)	(291)
Cash generated from operating activities		**5,861**	**3,547**
Interest paid		(3,585)	(2,948)
Income taxes paid		(386)	(1,310)
Net cash from/(used in) operating activities		**1,890**	**(711)**
Cash flows from investing activities			
Interest received		6	13
Proceeds from sale of property, plant and equipment and intangible assets		56	17
Proceeds from repayment of loans issued		74	68
Cash disposed on disposal of subsidiary	*34*	(2)	-
Acquisition of subsidiary net of cash acquired	33	(228)	(7,242)
Cash acquired in common control transactions		-	1,874
Acquisition of property, plant and equipment and intangible assets		(2,921)	(1,904)
Deposits placed in restricted accounts		-	(5)
Deposits released from restricted accounts		-	4,500
Loans issued to shareholders in lieu of future dividends		-	(77)
Net cash used in investing activities		**(3,015)**	**(2,756)**

The accompanying notes on pages 22 to 80 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*	2019	2018
Cash flows from financing activities			
Proceeds from issue of share capital		-	60
Proceeds from bonds issue	*29*	-	40,000
Proceeds from loans and borrowings	*29*	166	-
Change in bank overdraft	*29*	1,573	(52)
Transaction costs related to bonds issue	*29*	-	(1,730)
Repayment of loans and borrowings	*29*	-	(20,021)
Repayment of convertible notes		-	(12,375)
Payment of lease liabilities	*29*	(1,299)	(105)
Proceeds from sale and leaseback transaction	*29*	595	-
Proceeds from grants and donations		13	11
Factoring paid	*29*	(77)	(420)
Dividends paid	*24, 29*	-	(269)
Net cash from financing activities		**971**	**5,099**
Net increase/(decrease) in cash and cash equivalents		**(154)**	**1,632**
Cash and cash equivalents at 23 November 2017 / 1 January 2019	*23*	**1,335**	**-**
Effect of movement in exchange rates on cash held		184	(297)
Cash and cash equivalents at 31 December	*23*	**1,365**	**1,335**

The accompanying notes on pages 22 to 80 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

European Lingerie Group AB (Goldcup 15769 AB until 29 January 2018) (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 2019, 71.18% of the Company's shares were owned by Helike Holdings OU, 24.72% - by Bryum Capital Ltd, 1.80% - by SIA Silver Invest, 1.60% - by SIA Ievades Nozares, 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 2019. 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 17 August 2020. 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	*27*

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

Ehese 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 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 25, for details on Covid-19 impact on the Group refer to Note 39.

3. Significant accounting policies

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

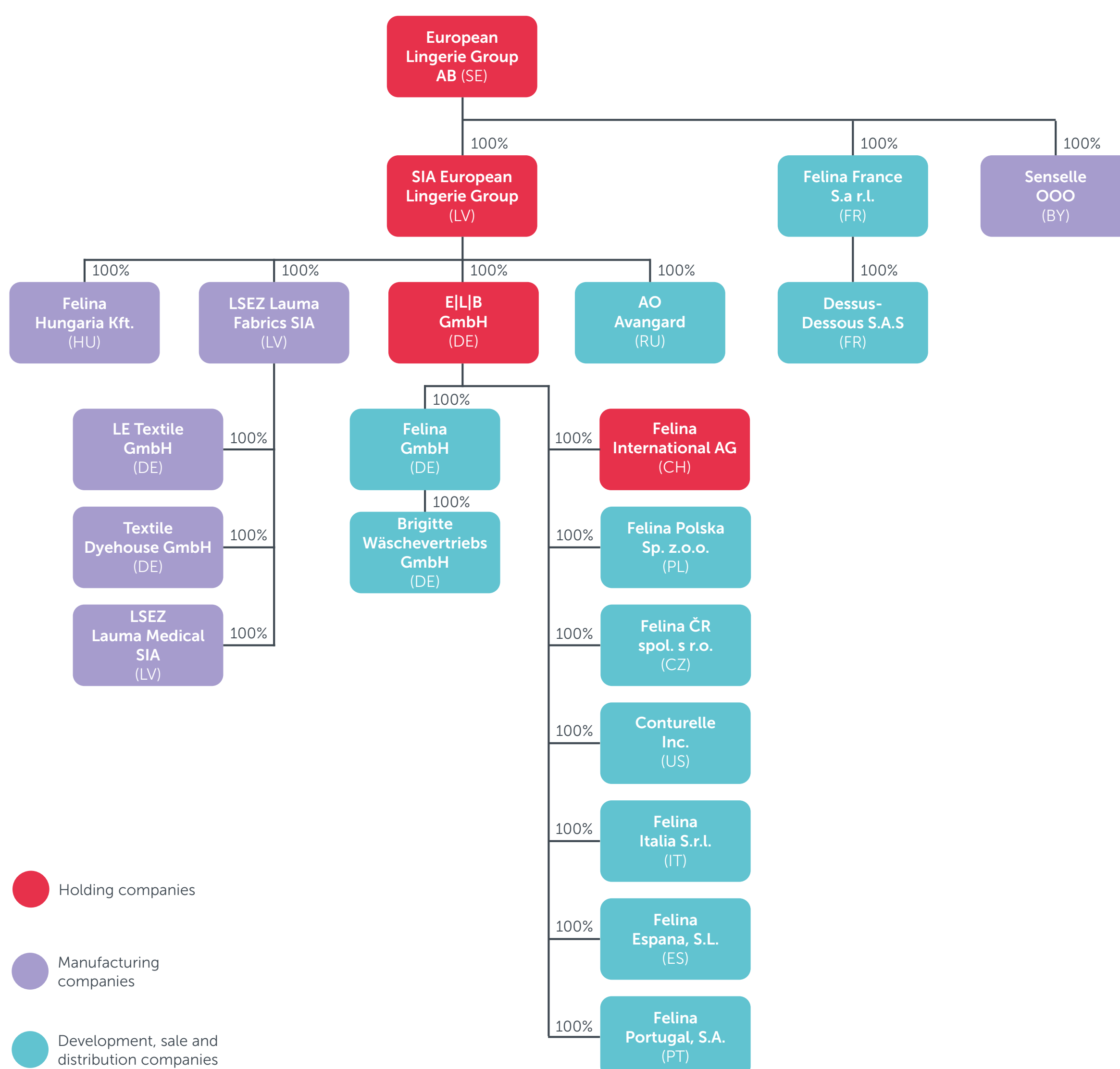
The accounting policies have been applied consistently by Group entities.

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 2019 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 2019	Proportion of ownership interest at 31 December 2018	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%	-	Production and wholesale
LSEZ Lauma Medical SIA	Latvia	100%	-	Production and wholesale

Senselle OOO

On 2 January 2019 European Lingerie Group AB acquired Senselle OOO, which was consolidated into the Group starting from 1 January 2019. For more information on acquisition of the subsidiary see Note 33.

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 34.

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.

Prior periods' business combinations

European Lingerie Group AB was established on 23 November 2017 and did not have any subsidiaries and operations up until 2018. SIA European Lingerie Group was acquired by European Lingerie Group AB in a common control transaction through the contribution of SIA European Lingerie Group shares into the equity of European Lingerie Group AB in 2018.

SIA European Lingerie Group was established in 2017 (previously AS European Lingerie Group). LSEZ Lauma Fabrics SIA Group was acquired by SIA European Lingerie Group in a common control transaction in 2017. ELB GmbH was established by SIA European Lingerie Group in 2017 and acquired Felina International AG Group through a business combination in 2017. AO Avangard was acquired by SIA European Lingerie Group through a business combination in 2017.

During 2018 the Group was reorganised and the structure simplified. The shareholding in Felina Hungaria Kft was transferred from Felina International AG to SIA European Lingerie Group, the shareholding in Felina France S.a.r.l., was transferred from Felina International AG to European Lingerie Group AB and the shareholdings in Felina GmbH, Felina Polska Sp. z o.o., Felina ČR spol.S.r.o, Conturelle Inc., Felina Italia S.r.l., Felina Espana S.L. and Felina Portugal S.A. were transferred from Felina International AG to E|L|B GmbH.

During 2018, the Group acquired Dessus-Dessous S.A.S through a business combination.

(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. The Parent Company of the Group, European Lingerie Group AB, was acquired by Myrtyle Ventures Ltd on 3 January 2018. At the same time Myrtyle Ventures Ltd was the owner of SIA European Lingerie Group, which was subsequently contributed into the equity of European Lingerie Group AB on 19 February 2018. SIA European Lingerie Group and its subsidiaries were consolidated into European Lingerie Group AB starting from 1 January 2018. Assets and liabilities of SIA European Lingerie Group were recorded at their carrying values at the acquisition date. The difference between the share capital issued in exchange for the shares of acquiree and the acquiree's equity is presented within equity.

(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 8.

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 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

	31 December 2018	Average for 2018
1 EUR/CHF	1.1269	1.1550
1 EUR/PLN	4.3014	4.2615
1 EUR/HUF	320.9800	318.8900
1 EUR/CZK	25.7240	25.6470
1 EUR/USD	1.1450	1.1810
1 EUR/RUB	79.7153	74.0416
1 EUR/BYN	2.4734	2.4054

(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 21).

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 30).

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 32, 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 29).

(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 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 16.

4.2 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 32 (ii).

4.3 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 19.

4.4 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.

4.5 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.

4.6 The potential impact of Covid-19 on the financial statements

The management assessed the potential impact of COVID-19 pandemic situation, including the quarantine announced in some countries of the Group's operations, on the financial statements, including going concern assumption. The management has assessed that this matter will not affect the Group's ability to continue as a going concern. In addition, the management has concluded that this event is a non-adjusting subsequent event and therefore its potential impact was not considered when making estimates and assumptions about the recoverable values of the investments into subsidiaries, impairment of loans granted to subsidiaries, inventories, property, plant and equipment, right-of-use assets and expected credit losses on trade receivables and contract assets. This matter might have a significant impact on these estimates in the next financial period, which cannot be reasonably quantified at this stage by the management due to great level of uncertainty associated with further development of COVID-19 pandemic situation in the countries of operation.

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) IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet 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 Group does not have any insurance contracts issued.

(ii) 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.

(iii) Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

(iv) IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity deter-

mines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, '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'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group has not yet evaluated the impact of the implementation of these amendments.

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

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Group has not yet evaluated the impact of the implementation of these amendments.

(vii) 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.

6. Changes in significant accounting policies

IFRS 16 *Leases*

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

IFRS 16 supersedes IAS 17 Leases, *IFRIC 4 Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified

retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

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

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

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases).

The effect of adopting IFRS 16 is as follows:

Impact on the consolidated statement of financial position (increase/(decrease)):

In thousands of EUR	**1 January 2019**
Assets	
Right-of-use asset	5,046
Property, plant and equipment	(118)
Total assets	**4,928**
Liabilities	
Loans and borrowings	4,928
Total liabilities	**4,928**
Net impact on equity	-

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for all leases were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used a single discount rate to a portfolio of leases within CGU.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

In thousands of EUR	
Operating lease commitments as at 31 December 2018	**6,574**
Weighted average incremental borrowing rate as at 1 January 2019	7.52%
Discounted operating lease commitments as at 1 January 2019	**4,960**
Less:	
Commitments relating to short-term leases	(32)
Add:	
Commitments relating to leases previously classified as finance leases	94
Lease liabilities as at 1 January 2019	**5,022**

Accounting policies for leases applied by the Group before 1 January 2019

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease. At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently the liability

is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

IFRS 9: *Prepayment features with negative compensation (Amendment)*

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The management concluded that the Amendment had no impact on the financial statements.

IAS 28: *Long-term Interests in Associates and Joint Ventures (Amendments)*

The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The management concluded that the Amendments had no impact on the financial statements.

IFRIC INTERPETATION 23: *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The management concluded that the Amendment had no impact on the financial statements.

IAS 19: *Plan Amendment, Curtailment or Settlement* (Amendments)

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The management concluded that the Amendment had no impact on the financial statements.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The management concluded that the Amendment had no impact on the financial statements.

- **IFRS 3 *Business Combinations and IFRS 11 Joint Arrangements.*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 *Income Taxes.*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **IAS 23 *Borrowing Costs.*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset

remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

7. Correction of errors

During 2019, the Group discovered that commission income in the amount of EUR 106 thousand and license income in the amount of EUR 108 thousand had been mistakenly recognised within 'other operating income' line item in the statement of profit or loss and OCI instead of revenue line item in 2018.

Additionally, transportation income in the amount of EUR 307 thousand had been mistakenly recognised within other operating income line item in the statement of profit or loss and OCI in 2018. Instead, transportation income should have been offset against related transportation expenses within 'other operating expenses' line item in 2018. The Group sometimes arranges for the delivery of goods for its customers at its own cost and afterwards recharges those transportation costs to customers without charging additional margin on that. Since the Group acts as an agent in these transactions respective transportation income and costs were offset.

Refer to Note 3.4 (i) for accounting policies on commission, license and transportation income.

The errors have been corrected by restating each of the affected line items for the prior period. The following table summarises the impacts on the Group's consolidated statement of profit or loss and OCI.

For the year ended 31 December 2018

In thousands of EUR	As previously reported	Adjust-ments	As Restated
Revenue	73,475	214	73,689
Other operating income	2,061	(521)	1,847
Other operating expenses	(19,448)	307	(19,141)
Loss for the year	**(2,527)**	**-**	**(2,527)**
Total comprehensive income	**(2,448)**	**-**	**(2,448)**

8. 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).

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	(189)	(391)	(580)	(3,813)	539	(3,854)
Other finance costs	(159)	(590)	(749)	(4)	-	(753)
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

2018 Restated* *In thousands of EUR*	Textiles	Lingerie	Total segments	Unallocated	Consolida-tion adjust-ments	Total
External revenues	33,084	40,605	73,689	-	-	73,689
Intersegment revenue	1,023	-	1,023	-	(1,023)	-
Total revenue	**34,107**	**40,605**	**74,712**	**-**	**(1,023)**	**73,689**
Other operating income	974	685	1,659	3,005	(3,124)	1,540
Changes in inventories of finished goods and work in progress	477	420	897	-	-	897
Raw materials and services	(14,443)	(12,190)	(26,633)	-	993	(25,640)
Employee benefits expense	(8,995)	(15,349)	(24,344)	(512)	-	(24,856)
Depreciation and amortisation	(1,755)	(1,355)	(3,110)	(1)	-	(3,111)
Impairment loss on trade and other receivables	(48)	(36)	(84)	-	-	(84)
Other operating expenses	(5,720)	(11,285)	(17,005)	(2,508)	372	(19,141)
Operating profit	**4,597**	**1,495**	**6,092**	**(16)**	**(2,782)**	**3,294**
Interest income	251	110	361	327	(636)	52
Other finance income	144	187	331	3	-	334
Interest expense	(422)	(229)	(651)	(3,822)	642	(3,831)
Other finance costs	(195)	(375)	(570)	(2)	-	(572)
Income tax	(862)	(941)	(1,803)	(1)	-	(1,804)
Net profit	**3,513**	**247**	**3,760**	**(3,511)**	**(2,776)**	**(2,527)**
Operating profit	4,597	1,495	6,092	(16)	(2,782)	3,294
Depreciation and amortisation	1,755	1,355	3,110	1	-	3,111
EBITDA	**6,352**	**2,850**	**9,202**	**(15)**	**(2,782)**	**6,405**
Segment assets	25,577	39,480	65,057	412	-	65,469
Segment liabilities	7,833	13,517	21,350	39,305	-	60,655
Capital expenditure	1,502	442	1,944	3	-	1,947
Number of employees at reporting date	539	732	1,271	8	-	1,279

* Refer to Note 7 for explanation of the restated figures for 2018.

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 9 (ii).

Non-current non-financial assets

In thousands of EUR	2019	2018
Germany	10,540	9,630
Latvia	8,923	8,023
France	5,959	5,415
Hungary	2,569	2,829
Russia	981	980
Poland	882	154
Other countries	91	21
Total	**29,945**	**27,052**

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

9. Revenue

(i) Revenue streams

The Group generates revenue primarily from the sale of textiles and lingerie products (see Note 8). 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	2019	2018 Restated*
Sales of goods, wholesale	67,737	67,208
Sales of goods, retail	8,713	5,447
Rendering of services	873	820
Sales commissions	121	106
License income	110	108
Total revenue from contracts with customers	**77,554**	**73,689**

*Refer to Note 7 for explanation of the restated figures for 2018.

(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 8).

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

	2018 Restated*		
In thousands of EUR	Textiles	Lingerie	Total
Germany	2,933	15,323	18,256
Russia	4,473	4,087	8,560
Baltic states	10,693	25	10,718
France	1,192	3,654	4,846
Belarus	4,678	-	4,678
Poland	2,342	1,976	4,318
The Netherlands	131	3,897	4,028
Spain	119	3,062	3,181
Morocco	2,118	-	2,118
Italy	134	1,500	1,634
Belgium, Luxemburg	239	1,240	1,479
Ukraine	1,692	35	1,727
Switzerland, Liechtenstein	1	1,067	1,068
Austria	431	574	1,005
Sweden	69	113	182
Other countries	1,839	4,052	5,891
External revenue as reported in Note 8	**33,084**	**40,605**	**73,689**

*Refer to Note 7 for explanation of the restated figures for 2018.

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 2019	31 December 2018
Gross trade receivables which are included in "trade and other receivables"	*22*	15,564	15,059
Contract assets		29	26
Contract liabilities		192	292

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 2019, the amount of unused gift cards was EUR 6 thousand (31 December 2018: 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.

10. Other operating income

In thousands of EUR	Note	2019	2018 Restated*
Income related to share-based payment arrangements	*38*	666	-
Rental income from property leases		561	625
Government grants		226	306
Gain on disposal of subsidiary	*34*	217	-
Income from sale of non-core materials		71	40
Gain on disposal of property, plant and equipment		56	7
Gain on bargain purchase	*33*	22	-
Proceeds from bad debts previously written off		21	75
Gain on termination of lease agreement		1	-
Gain on settlement of pension plan		-	118
Other income from non-core activities		590	369
Total		**2,431**	**1,540**

* Refer to Note 7 for explanation of the restated figures for 2018.

11. Raw materials and services

In thousands of EUR	2019	2018
Raw materials and consumables	24,415	22,761
Purchases of lingerie garments from third parties	3,793	2,186
External services	1,407	693
Total	**29,615**	**25,640**

12. Employee benefits expense

In thousands of EUR	2019	2018
Wages and salaries	20,777	19,817
Social security contributions	4,486	4,025
Expenses related to post-employment defined benefit plans	7	155
Other employee benefits	819	859
Total	**26,089**	**24,856**

As of 31 December 2019, the Group employed 1,285 employees (31 December 2018: 1,279 employees), including 993 women (31 December 2018: 958 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 1,282 during the reporting period (2018: 1,253).

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	96	20	116
Dmitry Ditchkovsky	35	-	35
Fredrik Synnerstad	8	3	11
Peter Partma	208	10	218
Total	**347**	**33**	**380**

Remuneration and other benefits of the Board of Directors for the year ended 31 December 2018 was as follows:

In thousands of EUR	Remu-neration	Social security costs	Total
Indrek Rahumaa	65	21	86
Dmitry Ditchkovsky	29	-	29
Fredrik Synnerstad	8	3	11
Peter Partma	173	15	188
Total	**275**	**39**	**314**

During the reporting period, amount of expenses related to executive management remuneration excluding CEO was EUR 57 thousand including social security costs of EUR 11 thousand (2018: EUR 147 thousand and EUR 28 thousand respectively).

13. Other operating expenses

In thousands of EUR	Note	2019	2018 Restated*
Sales and marketing		4,482	3,564
Utilities		2,928	3,126
Storage, transportation and packaging		1,643	1,333
Professional services		1,561	2,238
Change in write downs to net realizable value for obsolete and slow-moving inventories		919	835
Repair and maintenance		868	883
Travel expenses		689	695
IT and communication		681	485
Bank services		389	377
Expense relating to short-term leases	*35*	325	1,717
Insurance		230	193
Loss on disposal of property, plant and equipment and intangible assets		127	116
Car park related costs		125	128
Expenses related to share-based payment arrangements	*38*	52	364
Real estate tax		40	49
Other taxes		276	204
Other operating expenses		2,775	2,834
Total		**18,110**	**19,141**

* Refer to Note 7 for explanation of the restated figures for 2018.

Auditors fees included into professional services were as follows:

In thousands of EUR	2019	2018
Ernst & Young:		
Audit	121	-
Other:		
Audit	12	158
Other assignments	22	30
Total	**155**	**188**

14. Finance income

In thousands of EUR	2019	2018
Interest income under the effective interest method on:		
Trade and other receivables	51	52
Total interest income arising from financial assets measured at amortised cost	**51**	**52**
Foreign exchange gains	404	333
Other finance income	-	1
Finance income – other	**404**	**334**
Total	**455**	**386**

15. Finance costs

In thousands of EUR	2019	2018
Interest expense on financial liabilities measured at amortised cost	4,152	3,831
Foreign exchange losses	379	474
Interest expense on net defined benefit liability	57	70
Net change in fair value of financial assets mandatorily measured at FVTPL	-	18
Fines and penalties	19	10
Total	**4,607**	**4,403**

EUR 4,152 thousand of interest expense in the reporting period 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.

EUR 3,831 thousand of interest expense for the year ended 31 December 2018 consist of EUR 3,216 thousand of interest expense on loans and borrowings, EUR 443 thousand of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value, EUR 112 thousand of interest expense related to the amortisation of convertible notes to nominal value after revision of estimated cash flows due to early repayment and

EUR 60 thousand of interest expense related to unwinding of discount on deferred consideration of AO Avangard.

16. Income tax expense

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

In thousands of EUR	2019	2018
Current tax expense	**484**	**565**
Current year	434	445
Changes in estimates related to prior years	50	120
Deferred tax expense	**(363)**	**1,239**
Origination and reversal of temporary differences	(362)	1,239
Reduction in tax rate	(1)	-
Income tax expense reported in profit or loss	**121**	**1,804**

Amounts recognised in OCI during reporting period are as follows:

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

	2018		
In thousands of EUR	Before tax	Tax expense	Net of tax
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability	461	(50)	411
	461	**(50)**	**411**

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 2019 is as follows (2018: 22.0%):

In thousands of EUR	2019	2018
Profit/(loss) before tax	**21**	**(723)**
Tax using the Parent's domestic tax rate	4	(159)
Tax effect of:		
Non-deductible expenses	1,326	625
Changes in estimates related to prior years	50	120
Net loss of Latvian subsidiaries which may not be utilised in future periods and for which no deferred tax is recognised	13	317
Tax incentives	(809)	(2)
Tax-exempt income	(763)	(12)
Effect of tax rates in foreign jurisdictions	(231)	(32)
Net profit of Latvian subsidiaries not taxed in the reporting period	-	(40)
Other differences	32	(38)
Change in unrecognised deferred tax	499	1,025
Income tax expense reported in profit or loss	**121**	**1,804**

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. Net profit of Latvian subsidiaries not taxed in the reporting period represents income tax of Latvian subsidiaries that will arise on future distributions of profit earned.

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% (2018: 22%).

Movements in deferred tax balances are as follows:

2019							Balance at 31 December		
In thousands of EUR	Net balance at 31 December 2018	Recog-nised in profit or loss	Recog-nised in OCI	Effect of move-ments in exchange rates	Ac-quired in business combina-tion	Ac-quired in transac-tion under common contro	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)**	**-**	**-**	**-**	**-**	**-**	**(1,057)**	**1,926**	**(2,983)**

2018							Balance at 31 December		
In thousands of EUR	Net balance at 23 November 2017	Recognised in profit or loss	Recognised in OCI	Effect of movements in exchange rates	Acquired in business combination	Acquired in transaction under common contro	Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	-	58	-	5	14	(243)	(166)	16	(182)
Intangible assets	-	496	-	-	(1,267)	(1,739)	(2,510)	-	(2,510)
Inventories	-	(211)	-	-	(13)	193	(31)	248	(279)
Loans and other receivables, including contract assets	-	(30)	-	(3)	(4)	109	72	83	(11)
Employee benefits	-	(13)	(50)	-	-	526	463	463	-
Provisions	-	3	-	-	29	6	38	38	-
Loans and other payables	-	(62)	-	-	(6)	23	(45)	14	(59)
Deferred income	-	17	-	-	-	(17)	-	-	-
Tax losses carried forward	-	219	-	-	-	3,913	4,132	4,132	-
Unrecognised tax losses	-	(1,025)	-	-	-	(1,593)	(2,618)	(2,618)	-
Latvian subsidiaries profit for distribution	-	(691)	-	-	-	-	(691)	-	(691)
Tax assets (liabilities) before set-off	**-**	**(1,239)**	**(50)**	**2**	**(1,247)**	**1,178**	**(1,356)**	**2,376**	**(3,732)**
Set-off of tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(69)**	**69**
Net tax assets (liabilities)	**-**	**-**	**-**	**-**	**-**	**-**	**(1,356)**	**2,307**	**(3,663)**

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 2019	Expiry period
Expire	154	2023-2028
Never expire	4,365	-
Total	**4,519**	**-**

In thousands of EUR	31 December 2018	Expiry period
Expire	230	2023-2028
Never expire	5,036	-
Total	**5,266**	**-**

Trade tax

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

In thousands of EUR	31 December 2018	Expiry period
Expire	-	-
Never expire	4,589	-
Total	**4,589**	**-**

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

	31 December 2018	
In thousands of EUR	**Gross amount**	**Tax effect**
Tax losses	10,607	2,151

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

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

In thousands of EUR	**31 December 2018**	**Expiry period**
Expire	725	2022
Never expire	9,882	-
Total	**10,607**	-

Trade tax

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

	31 December 2018	
In thousands of EUR	**Gross amount**	**Tax effect**
Tax losses	3,145	467

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

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

In thousands of EUR	**31 December 2018**	**Expiry period**
Expire	-	-
Never expire	3,145	-
Total	**3,145**	-

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.

17. 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 23 November 2017		-	-	-	-	-
Acquisitions from common control transactions	*33*	9,666	20,381	4,830	2	34,879
Acquisitions through business combinations	*33*	-	-	149	-	149
Additions		214	669	336	623	1,842
Transfers		-	2	-	(2)	-
Disposals		-	(182)	(114)	(10)	(306)
Effect of movements in exchange rates		(76)	(24)	(6)	-	(106)
At 31 December 2018		**9,804**	**20,846**	**5,195**	**613**	**36,458**
Acquisitions through business combinations	*33*	-	2	2	-	4
Additions		-	2,008	221	330	2,559
Transfers		68	769	9	(846)	-
Transfers to right-of-use assets	*18*	-	(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**
Accumulated depreciation						
Opening balance at 23 November 2017		-	-	-	-	-
Acquisitions from common control transactions	*33*	2,104	17,232	3,154	-	22,490
Depreciation		402	1,409	558	-	2,369
Disposals		-	(173)	(66)	-	(239)
Effect of movements in exchange rates		(2)	(4)	(1)	-	(7)
At 31 December 2018		**2,504**	**18,464**	**3,645**	**-**	**24,613**
Depreciation		413	1,009	416	-	1,838
Transfers to right-of-use assets	*18*	-	(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**
Carrying amounts						
At 31 December 2018		7,300	2,382	1,550	613	11,845
At 31 December 2019		**6,896**	**2,775**	**1,304**	**91**	**11,066**

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 7,865 thousand at 31 December 2019 (31 December 2018: EUR 8,096 thousand). For more details on pledged property, plant and equipment refer to Note 29 of these financial statements.

18. 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	*17*	-	83	76	159
Opening balance at 1 January 2019		**4,675**	**150**	**262**	**5,087**
Acquisitions through business combinations	*33*	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**
Accumulated depreciation					
Opening balance at 31 December 2018		-	-	-	-
Transfers from property, plant and equipment	*17*	-	17	24	41
Opening balance at 1 January 2019		**-**	**17**	**24**	**41**
Depreciation	*35*	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**
Carrying amounts					
At 1 January 2019		-	-	-	-
At 31 December 2019		**2,855**	**1,261**	**190**	**4,306**

Remeasurement of land and buildings amounted to EUR 33 thousand which was a result of discounts obtained by Felina Poland for its leases of office and retail stores. Disposals in the net amount of EUR 743 thousand were mainly attributable to the termination of the office lease agreement by Felina GmbH.

19. Intangible assets

In thousands of EUR	*Note*	Goodwill	Brand names	Customer relations	Software	Order backlog	Total
Cost							
Opening balance at 23 November 2017		-	-	-	-	-	-
Acquisitions from common control transactions	*33*	4,615	4,225	949	929	219	10,937
Acquisitions through business combinations	*33*	2,322	1,762	1,166	155	-	5,405
Additions		-	-	-	105	-	105
Disposals		-	-	-	(101)	-	(101)
Effect of movements in exchange rates		-	-	-	(2)	-	(2)
At 31 December 2018		**6,937**	**5,987**	**2,115**	**1,086**	**219**	**16,344**
Additions		-	-	-	362	-	362
Disposals		-	-	-	(17)	-	(17)
Disposals as a result of subsidiary disposal	*34*	-	-	-	(76)	-	(76)
At 31 December 2019		**6,937**	**5,987**	**2,115**	**1,355**	**219**	**16,613**
Accumulated amortization							
Opening balance at 23 November 2017		-	-	-	-	-	-
Acquisitions from common control transactions	*33*	-	-	95	270	73	438
Amortisation		-	-	306	290	146	742
Disposals		-	-	-	(42)	-	(42)
Effect of movements in exchange rates		-	-	-	(1)	-	(1)
At 31 December 2018		**-**	**-**	**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**
Carrying amounts							
At 31 December 2018		6,937	5,987	1,714	569	-	15,207
At 31 December 2019		**6,755**	**5,987**	**1,291**	**540**	**-**	**14,573**

Intangible assets 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 intangible assets pledged as collateral under bank loan agreements amounted to EUR 6,803 thousand at 31 December 2019 (31 December 2018: EUR 4,349 thousand). For more details on pledged intangible assets refer to Note 29 of these financial statements.

Impairment test

Goodwill and brand names were tested for impairment as at 31 December 2019. For the purpose of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) as follows:

In thousands of EUR	2019	2018
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	2019	2018
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	8.3%	12.6%	10.2%
Terminal value growth rate	1.5%	2.0%	2.5%
Revenue growth rate (average of next five years)	2.5%	0.9%	7.3%
Operating profit margin (average of next five years)	10.1%	23.5%	6.1%

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 4.3% 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 years 2017-2018 adjusted for one-off income/expenses.

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 not increase 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 6.2% on average in the next five years while the sales price would increase by 1.0% on average.
- Operating profit margin was projected to remain at the level of recent years with operating expenses adjusted for the forecasted inflation over the next five years.

As the result of the impairment test carried out, the estimated recoverable amount for Dessus-Dessous S.A.S was below its carrying amount by EUR 182 thousand. The impairment loss of EUR 182 thousand was recognised and fully allocated to goodwill and included in 'Depreciation, amortisation and impairment of intangible assets'. Estimated recoverable amount of Felina International AG Group and AO Avangard significantly 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 Felina International AG Group and AO Avanagard. For the estimated recoverable amount of Felina International AG and AO Avangard to be equal to their carrying amount, each key assumption individually should reach the following

values (assuming other assumptions remain unchanged):

	Felina International AG Group	AO Avangard
Discount rate	11.3%	47.5%
Revenue growth/ (decline) rate (average of next five years)	0.8%	(24.2%)
Operating profit margin (average of next five years)	7.9%	8.3%

20. Equity accounted investees

The group held a 50% share in Tele Textile Latvia SIA at 31 December 2019, 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 2019	31 December 2018
Percentage ownership interest	50%	50%
Non-current assets	657	815
Current assets	698	756
Non-current liabilities	(1,664)	(1,325)
Current liabilities	(395)	(846)
Net assets	(704)	(600)
Group's share of net assets	**(352)**	**(300)**
Carrying amount of interest in joint venture	**-**	**-**

	2019	2018
Revenue	1,381	1,414
Loss for the year	(104)	(214)
Total comprehensive income	(104)	(214)
Group's share of loss	**(52)**	**(107)**

The Group did not recognise its share of profit or loss of Tele Textile Latvia SIA during the reporting period since the Company reported a loss while the carrying amount of interest was zero.

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

21. Inventories

In thousands of EUR	2019	2018
Raw materials and consumables	6,691	6,530
Work in progress	1,803	1,878
Finished goods	11,851	10,505
Right to recover returned goods	126	93
Total	**20,471**	**19,006**

EUR 28,208 thousand was recognised as an expense during the reporting period and included in 'raw materials and services' (2018: EUR 24,947 thousand).

Movement in write downs of inventories:

In thousands of EUR	2019	2018
Cumulative write downs at 1 January 2019 / 23 November 2017	**679**	**-**
Acquired in transaction under common control	-	662
Write downs recognised	933	88
Write downs utilised	(516)	-
Write downs released	(14)	(71)
Cumulative write downs at 31 December	**1,082**	**679**

The carrying amount of inventories pledged as collateral under bank loan agreements amounted to EUR 8,869 thousand at 31 December 2019 (31 December 2018: EUR 6,817 thousand). For more details on pledged inventories refer to Note 29 of these financial statements.

22. Trade and other receivables

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

In thousands of EUR	2019	2018
Financial trade and other receivables		
Trade receivables	14,941	14,390
Loans to related parties	819	848
Trade receivables due from related parties	623	669
Other receivables	429	386
Other receivables due from related parties	431	-
Allowance for trade and other receivables	(1,065)	(1,055)
Allowance for trade and other receivables due from related parties	(737)	(645)
Allowance for loans to related parties	(102)	(460)
	15,339	**14,133**
Non-financial trade and other receivables		
VAT receivable	189	202
Social contributions receivable	2	2
Other taxes receivable	6	17
Other assets	35	66
	232	**287**
Total	**15,571**	**14,420**
Non-current	717	388
Current	14,854	14,032
Total	**15,571**	**14,420**

As at 31 December 2019 and 31 December 2018 trade receivables in the gross amount of EUR 14,941 thousand and EUR 14,390 thousand respectively mostly comprise receivables for goods sold. For more details on the composition of trade receivables refer to Note 32.

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 29).

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	2019	2018
Carrying amount of trade receivables transferred to a factoring company	720	1,011
Carrying amount of associated liabilities	698	770

Trade and other receivables for the amount of EUR 7,174 were pledged as collateral under bank loan agreements as at 31 December 2019 (31 December 2018: EUR 7,113 thousand). For more details on pledged trade and other receivables refer to Note 29 of these financial statements.

For terms and conditions relating to related party receivables, refer to Note 37.

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 32.

23. Cash and cash equivalents

In thousands of EUR	2019	2018
Cash on hand	56	123
Bank balances	1,272	1,173
Cash in transit	37	39
Cash and cash equivalents	**1,365**	**1,335**

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 78 thousand as at 31 December 2019 (31 December 2018: EUR 23 thousand) (refer to Note 29).

24. Capital and reserves

Share capital

Number of shares	2019	2018
Opening balance	60,000	-
Issued for cash	-	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.

Nature and purpose of reserves

Reserves include translation reserve in the amount of EUR -332 thousand which comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Dividends

Dividends in the amount of EUR 269 thousand were paid by the Group during the year and related to dividends declared by LSEZ Lauma Fabrics SIA back in 2017 for the year 2016.

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

25. Going concern

As at 31 December 2019 net loss of the Group for the period ended 31 December 2019 amounted to EUR 220 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 2019 described in Note 26. Additional reason for net loss was interest expense related to the amortization of transaction costs on bonds issue in the amount of EUR 567 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 depends on the fulfilment of the conditions defined in the Bond Terms and Conditions or alternatively on agreements reached with the bondholders in respect of amendments to be made to these conditions or necessary waivers obtained from the bondholders in respect of breaches to the bond covenants. Furthermore, the going concern also depends on the successful raising of the external capital needed for fulfilment of the contemplated restructuring of the Bonds as per the standstill agreement described in Note 39. If the planned restructuring of the financial structure and raising external capital does not take place, it might lead to a significant uncertainty about the Group's ability to continue as a going concern.

26. 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*	2019	2018
Interest-bearing debt	*29*	46,996	41,093
Less: cash and cash equivalents		(1,365)	(1,335)
Net interest-bearing debt		**45,631**	**39,758**
Reported EBITDA		8,184	6,405
Extraordinary items		645	2,490
Dessus-Dessous S.A.S EBITDA from 1 January 2018 to acquisition date		-	393
Adjusted EBITDA		**8,829**	**9,288**
Net interest-bearing debt to adjusted EBITDA		**5.17**	**4.28**

Extraordinary items include the following:

In thousands of EUR	2019	2018
Management contract termination costs	310	-
Transaction costs	141	1,101
Restructuring of brands/subsidiaries	93	172
Net loss on disposal of property, plant and equipment and intangible assets	70	109
Effect of fair value adjustment to inventories	-	877
Gain on disposal of subsidiary	(217)	-
Other costs	248	231
Total	**645**	**2,490**

- *Management contract termination costs* in 2019 related to contract terminations with Mr Peter Patrtma, Mr Christian Stolba and Ms Brigitte Hardt.
- *Transaction costs* in 2019 related to acquisition of Yustina OOO (renamed to Senselle OOO) and costs related to renegotiation of the Bond Terms and Conditions. Transaction costs in 2018 related to the issue of bonds by European Lingerie Group AB and acquisition of Dessus-Dessous S.A.S.
- *Restructuring of brands/subsidiaries* in 2019 and 2018 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.

- *Effect of fair value adjustment to inventories* included elimination of the effect of fair value adjustments made by the Group to inventories of Dessus-Dessous S.A.S and AO Avangard at the moment of business combination. Those inventories were subsequently sold by the Group during 2018.

- *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 34.

- *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 initially proposed names were objected by another swimwear company, which had these registered as trademarks for their products. The objection was amicably settled with the claimant and a respective compensation was paid. Other costs in 2018 included various consultancy costs related to the planned bond listing and further potential acquisitions.

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.

The Group's net interest-bearing debt to adjusted EBITDA at 31 December 2018 was 4.28, while the maximum ratio requirement under the bonds covenant was 4.50. The Group reported in the report for nine months and third quarter 2019 that the Group's Net Interest Bearing Debt to EBITDA ratio at 30 September 2019 was 4.80 and in the report for twelve months and fourth quarter 2019 that the respective ratio at 31 December 2019 was 5.17. At both reference dates the maintenance test ratio exceeded the maximum 4.25 allowed under Original Bond Terms and Conditions issued on 22 February 2018. On 16 January 2020, the Parent completed a written procedure under the Terms and Conditions to waive the maintenance test default for the reference period ending on 30 September 2019 and to adjust the maintenance test for the reference period ending on 31 December 2019. However, it was a condition for the amendments to the Terms and Conditions to come into effect that a capital contribution by way of equity and/or subordinated loans is provided to the Group.

Due to COVID-19 pandemic, the Group has not been able to raise the required amount of equity in full. 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 2019, have 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 on 29 July 2020 reached an agreement on the standstill with the Bondholder Committee (Representing approximately 60 per cent of the total nominal amount of the bonds). Refer to Note 39 for further details on subsequent events.

27. 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 Feli-

na 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 2019 and 2018.

The Group expects to pay EUR 226 thousand in contributions to its defined benefit plan in Germany in 2020. During 2019 the Group paid EUR 309 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*	2019	2018	2019	2018	2019	2018
Balance at 1 January 2019 / 23 November 2017		**3,952**	**-**	**(144)**	**-**	**3,808**	**-**
Acquired in transaction under common control		-	6,203	-	(1,713)	-	4,490
Included in profit or loss							
Current service cost	*12*	7	15	-	-	7	15
Derecognition of the plan asset	*12*	-	-	-	140	-	140
Interest cost	*15*	57	64	-	6	57	70
Settlement of the plan	*10*	-	(1,489)	-	1,371	-	(118)
		64	**(1,410)**	**-**	**1,517**	**64**	**107**
Included in other comprehensive income							
Remeasurement loss (gain):							
- Actuarial loss (gain) arising from financial assumptions		300	(38)	-	-	300	(38)
- Actuarial loss arising from demographic assumptions		-	51	-	-	-	51
- Actuarial gain arising from experience adjustment		(527)	(215)	-	-	(527)	(215)
- Return on plan assets excluding interest income		-	-	-	(264)	-	(264)
Effect of movements in exchange rates		-	24	-	(19)	-	5
		(227)	**(178)**	**-**	**(283)**	**(227)**	**(461)**
Other							
Contributions paid by the employer		(309)	(317)	-	(11)	(309)	(328)
Benefits paid		-	(346)	-	346	-	-
		(309)	**(663)**	**-**	**335**	**(309)**	**(328)**
Balance at 31 December 2019		**3,480**	**3,952**	**(144)**	**(144)**	**3,336**	**3,808**

Plan assets

As at 31 December 2019, plan assets in the amount of EUR 144 thousand include pension insurance (31 December 2018: 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:

	2019	2018
Discount rate	0.63%	1.50%
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.

	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)

	2018	
In thousands of EUR	Increase	Decrease
Discount rate (1% movement)	(395)	470
Future salary growth (1% movement)	-	-
Future pension growth (1% movement)	420	(363)
Future mortality (1% movement)	40	(40)

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.

28. Provisions

		2019			2018		
In thousands of EUR	Note	Provisions for employee benefits	Other provisions	Total	Provisions for employee benefits	Other provisions	Total
Balance at 1 January 2019 / 23 November 2017		**218**	**106**	**324**	**-**	**-**	**-**
Assumed in the business combination	*33*	-	-	-	87	-	87
Assumed in the transaction under common control	*33*	-	-	-	139	220	359
Provisions made during the year		9	-	9	15	-	15
Provisions used during the year		-	-	-	(23)	-	(23)
Provisions reversed during the year		(2)	(64)	(66)	-	(114)	(114)
Balance at 31 December		**225**	**42**	**267**	**218**	**106**	**324**
Non-current		221	-	221	213	-	213
Current		4	42	46	5	106	111
		225	**42**	**267**	**218**	**106**	**324**

Provisions for employee benefits

Provisions for employee benefits include jubilee provision (EUR 120 thousand) and retirement reward provision (EUR 105 thousand) as of 31 December 2019 (31 December 2018: EUR 121 thousand and EUR 97 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.

29. Loans and borrowings

In thousands of EUR	2019	2018
Non-current liabilities		
Secured bonds	-	38,713
Lease liabilities	2,532	54
Long-term secured bank loans	134	-
	2,666	**38,767**
Current liabilities		
Short-term secured bank loans	2,678	1,147
Current portion of lease liabilities	1,231	40
Secured other loans	698	770
Secured bonds	39,616	336
Short-term unsecured bank loans	75	33
Current portion of secured long-term bank loans	32	-
	44,330	**2,326**
Total	**46,996**	**41,093**

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

Secured other loans represent amounts received from factoring companies, see Note 22.

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 32.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

				31 December 2019		31 December 2018	
In thousands of EUR	Currency	Nominal interest rate	Year of maturity	Nominal value	Carrying amount	Nominal value	Carrying amount
Secured bonds	EUR	3m Euribor + 7.75%	2021	40,000	39,616	40,000	39,049
Secured bank loan	EUR	3m Euribor + 4.0%	2020	2,596	2,596	706	706
Secured bank loan	EUR	1.2%	2022	166	166	-	-
Secured bank loan	EUR	6m Euribor + 3.8%	2020	82	82	441	441
Unsecured bank loan	EUR	3.0%	2020	60	60	33	33
Unsecured bank loan	EUR	3m Euribor +2.0%	2020	15	15	-	-
Secured other loans	EUR	6m Euribor + 4.5%	2020	698	698	715	715
Secured other loans	RUB	14.6%	2019	-	-	55	55
Lease liabilities	EUR	6.8%-8.8%	2020-2028	2,867	2,867	-	-
Lease liabilities	EUR	6m Euribor + 3.8%	2024	548	548	-	-
Lease liabilities	PLN	7.6%	2023-2028	128	128	-	-
Lease liabilities	RUB	7.6%	2023	105	105	-	-
Lease liabilities	HUF	7.6%	2020-2023	59	59	-	-
Lease liabilities	EUR	6m Euribor + 3.2%	2020	21	21	43	43
Lease liabilities	EUR	3m Euribor + 1.99%	2023	19	19	23	23
Lease liabilities	EUR	6m Euribor + 2.3%	2021	8	8	14	14
Lease liabilities	EUR	3.44%	2021	8	8	14	14
Total interest-bearing liabilities				**47,380**	**46,996**	**42,044**	**41,093**

In 2019, Felina GmbH extended the agreement with Commerzbank AG concerning credit line for the amount of EUR 4,350 thousand. The agreement matures in 2020, and the annual interest rate is 3m Euribor + 4.0%. The amount of credit line utilized as at 31 December 2019 was EUR 2,596 thousand (31 December 2018: EUR 706 thousand). The loan is secured with "Felina" and "Conturelle" brand names with the carrying amount of EUR 4,225 thousand.

In 2019, LSEZ Lauma Fabrics SIA extended the credit line agreement with AS Citadele Bank concerning a credit line of EUR 1,000 thousand. The agreement matures in 2020, and the annual interest rate is 6m Euribor + 3.8% until 10 February 2020 an 6m Euribor + 4.5% from 10 February 2020. The amount of credit line utilized as at 31 December 2019 was EUR 82 thousand (31 December 2018: EUR 441 thousand). The loan is secured with commercial pledge over all assets of LSEZ Lauma Fabrics SIA (total assets value was EUR 24,945 thousand as of 31 December 2019), financial pledge over cash balances at the bank accounts of LSEZ Lauma Fabrics SIA (EUR 42 thousand as of 31 December 2019) and AS "Attīstības finanšu institūcija "ALTUM" guarantee in the amount of EUR 800 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 is expected to be drawn during the first half of 2020 with repayment starting in the second half of the year. 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 816 thousand and movable property with the carrying amount of EUR 1,898 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%.

Lease liabilities increased compared to 31 December 2018 as a result of adoption of IFRS 16 by the Group on 1 January 2019. EUR 3,159 thousand out of total amount of lease liabilities outstanding at 31 December 2019 refer to new leases recognised under IFRS 16.

Secured other loans represent amounts received from factoring companies, see Note 22.

Breach of bonds covenant

The Group holds secured bonds with a carrying amount of EUR 39,616 thousand at 31 December 2019 (2018: EUR 39,049 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 2019 cannot exceed 4.25 times. The Group exceeded the limit in the third quarter and fourth quarter of 2019. As the waiver in respect of the third quarter 2019 was received by the Group in January 2020 and the waiver 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 26 and 39.

Changes in liabilities arising from financing activities

In thousands of EUR	*Note*	Loans and borrowings	Bonds	Lease liabilities	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	*33*	-	-	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**

In thousands of EUR	Loans and borro-wings	Bonds	Conver-tible notes	Lease liabilities	Com-pound deriva-tive liability	De-ferred income	Divi-dends payable	Share capital	Total
Balance at 23 November 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes arising from obtaining control of subsidiaries in transactions under common control	**22,568**	**-**	**10,888**	**150**	**1,375**	**1,092**	**898**	**-**	**36,971**
Changes from financing cash flows									
Proceeds from bonds issue	-	40,000	-	-	-	-	-	-	40,000
Transaction costs related to bonds issue	-	(1,730)	-	-	-	-	-	-	(1,730)
Repayment of convertible notes	-	-	(11,000)	-	(1,375)	-	-	-	(12,375)
Repayment of loans and borrowings	(20,021)	-	-	-	-	-	-	-	(20,021)
Change in bank overdraft	(52)	-	-	-	-	-	-	-	(52)
Payment of lease liabilities	-	-	-	(105)	-	-	-	-	(105)
Factoring paid	(420)	-	-	-	-	-	- -	-	(420)
Proceeds from grants and donations	-	-	-	-	-	11	-	-	11
Proceeds from issue of share capital	-	-	-	-	-	-	-	60	60
Dividends paid	-	-	-	-	-	-	(269)	-	(269)
Total changes from financing cash flows	**(20,493)**	**38,270**	**(11,000)**	**(105)**	**(1,375)**	**11**	**(269)**	**60**	**5,099**
Other changes									
Liability-related									
New leases	-	-	-	49	-	-	-	-	49
Interest expense	323	2,687	202	4	-	-	-	-	3,216
Interest expense (amortisation of transaction costs)	-	443	112	-	-	-	-	-	555
Interest paid	(391)	(2,351)	(202)	(4)	-	-	-	-	(2,948)
Income from government grants	-	-	-	-	-	(306)	-	-	(306)
Offset against loans issued to shareholders	-	-	-	-	-	-	(629)	-	(629)
Effect of movements in exchange rates	(57)	-	-	-	-	(11)	-	-	(68)
Total liability-related other changes	**(125)**	**779**	**112**	**49**	**-**	**(317)**	**(629)**	**-**	**(131)**
Balance at 31 December 2018	**1,950**	**39,049**	**-**	**94**	**-**	**786**	**-**	**60**	**41,939**

Lease liabilities

In thousands of EUR	Future lease payments		Interest		Present value of future lease payments	
	2019	2018	2019	2018	2019	2018
Less than one year	1,837	42	237	2	1,600	40
Between one and five years	1,999	56	311	2	1,688	54
More than five years	523	-	48	-	475	-
Total	**4,359**	**98**	**596**	**4**	**3,763**	**94**

30. Trade and other payables

In thousands of EUR	2019	2018
Financial trade and other payables		
Trade payables	7,086	5,671
Accrued expenses	1,823	2,184
Payables to personnel	667	735
Other payables	552	811
Other payables due to related parties	-	12
	10,128	**9,413**
Non-financial trade and other payables		
Refund liabilities	349	186
VAT payable	376	140
Personal income tax payable	277	259
Social contributions payable	454	475
Other taxes payable	21	46
	1,477	**1,106**
Total	**11,605**	**10,519**
Non-current	92	-
Current	11,513	10,519
Total	**11,605**	**10,519**

Other payables at 31 December 2019 included EUR 51 thousand payable for acquisition of Dessus-Dessous S.A.S.

Information about the Group's exposure to currency and liquidity risks is included in Note 32.

For terms and conditions relating to related party payables, refer to Note 37.

31. Deferred income

In thousands of EUR	2019	2018
Long-term government grants	221	255
Short-term government grants	28	31
Long-term LIDA financing	228	315
Short-term LIDA financing	87	185
Deferred income	**564**	**786**

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.

32. 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 2019 and 2018. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount		Fair value		Fair value level
In thousands of EUR	*Note*	2019	2018	2019	2018	
Financial assets not measured at fair value						
Financial assets measured at amortised cost						
Non-current other receivables	*22*	717	388	681	343	Level 3
		717	**388**	**681**	**343**	
Financial liabilities not measured at fair value						
Financial liabilities measured at amortised cost						
Bonds	*29*	39,616	39,049	40,466	40,580	Level 3
Long-term bank loan	*29*	166	-	147	-	Level 3
		39,782	**39,049**	**40,613**	**40,580**	

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 9 (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 allow-

ance 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. In 2018, certain purchase limits have been reduced, particularly for customers operating in Russia, because the Group's experience is that the recent economic volatility has had a greater impact for customers in those countries than for customers in other countries.

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

In thousands of EUR	Note	2019	2018
Baltic States		2,580	3,229
Russia		2,551	2,742
Germany		1,641	1,255
Belarus		1,408	1,214
Poland		955	884
Spain		1,389	698
Italy		709	634
Morocco		445	533
Ukraine		498	494
Other counties		2,475	2,088
Total		**14,651**	**13,771**
Off-balance sheet guarantees issued	*36*	969	1,103

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	2019	2018
Textiles products		8,126	8,125
Lingerie products		6,303	5,641
Not-allocated		222	5
Total		**14,651**	**13,771**
Off-balance sheet guarantees issued	*36*	969	1,103

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.

	31 December 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)**

	31 December 2018		
In thousands of EUR	Average loss rate	Gross carrying amount	Loss allowance
Current (not past due)	0.14%	4,905	(7)
Past due 1-30 days	0.42%	1,179	(5)
Past due 31-60 days	1.88%	638	(12)
Past due 61-90 days	5.85%	188	(11)
Past due 91-180 days	25.68%	366	(94)
Past due more than 180 days	100.00%	595	(595)
Total		**7,871**	**(724)**

Loss rates are based on actual credit loss experience during past six years for textiles segment and during past two years for lingerie segment. Loss rates to be applied are taken for one of the years during which economic conditions in the geographic region were most close to current economic conditions and the Group's view of economic conditions over the expected lives of the receivables. When evaluating economic conditions, the Group considers GDP growth rates in each geographic region.

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 were EUR 7,546 thousand at 31 December 2019 (2018: EUR 7,600 thousand) and respective allowance for ECL was EUR 943 thousand (2018: EUR 976 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:

In thousands of EUR	2019	2018
Balance at 1 January 2019 / 23 November 2017	**1,700**	**-**
Acquired in transaction under common control	-	1,798
Amounts written off	(74)	(166)
Net remeasurement of loss allowance	164	84
Effect of movements in exchange rates	12	(16)
Balance at 31 December	**1,802**	**1,700**

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 37 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	2019	2018
Baltic States	681	353
Great Britain	36	35
Total	**717**	**388**

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	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**

Credit rating	2018	
In thousands of EUR	12-month ECL	Lifetime ECL – credit-impaired
Non-rated	141	247
Gross carrying amounts	141	707
Loss allowance	-	(460)
Carrying amount	**141**	**247**

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	2019	2018
Balance at 1 January 2019 / 23 November 2017	**460**	**-**
Acquired in transaction under common control	-	460
Net remeasurement of loss allowance	(358)	-
Balance at 31 December	**102**	**460**

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 partial repayment of the loan during 2019 in the amount of EUR 74 thousand.

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 1,365 thousand as at 31 December 2019 (31 December 2018: EUR 1,335 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 2019 and 31 December 2018 was EUR 405 thousand and EUR 474 thousand respectively). Refer to Note 36 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 29 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	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 following are the remaining contractual maturities of financial liabilities at 31 December 2018:

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	1,147	1,147	-	-	-	-	1,147
Unsecured bank loans	33	33	-	-	-	-	33
Secured bonds	39,049	1,559	1,584	3,143	40,792	-	47,078
Secured other loans	770	770	-	-	-	-	770
Lease liabilities	94	21	21	40	16	-	98
Trade and other payables	9,413	9,413	-	-	-	-	9,413
	50,506	**12,943**	**1,605**	**3,183**	**40,808**	**-**	**58,539**
Off-balance sheet guarantees issued	1,103	1,103	-	-	-	-	1,103

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 36.

(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 2019 is as follows:

In thousands of EUR	HUF	CHF	RUB	USD	BYN	EUR	Other currencies	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)**

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group as at 31 December 2018 is as follows:

In thousands of EUR	HUF	CHF	RUB	USD	BYN	EUR	Other currencies	Total
Cash and cash equivalents	61	56	64	60	-	985	109	1,335
Trade and other receivables	105	37	1,695	14	-	11,509	799	14,159
Loans and borrowings		-	(55)	-	-	(41,038)	-	(41,093)
Trade and other payables	(288)	(37)	(103)	(277)	-	(8,626)	(82)	(9,413)
Net statement of financial position exposure	**(122)**	**56**	**1,601**	**(203)**	**-**	**(37,170)**	**826**	**(35,012)**

A 5% strengthening (weakening) of CHF, HUF, RUB, USD against EUR at 31 December 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 2019

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

31 December 2018

	Profit or loss		Equity, net of tax	
In thousands of EUR	Strengthening	Weakening	Strengthening	Weakening
HUF	(54)	54	(4)	4
CHF	(394)	394	(1)	1
RUB	26	(26)	2	(2)
BYN	-	-	-	-
USD	14	(14)	10	(10)

(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	2019	2018
Fixed-rate instruments		
Financial assets	717	389
Financial liabilities	(3,393)	(101)
Net position	**(2,676)**	**288**
Variable-rate instruments		
Financial assets	-	-
Financial liabilities	(43,603)	(40,992)
Net position	**(43,603)**	**(40,992)**

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 18 thousand after tax as at 31 December 2019 (31 December 2018: EUR 3 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 343 thousand at 31 December 2019 (31 December 2018: EUR 322 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

33. Acquisition of subsidiary

Common control transactions

SIA European Lingerie Group

On 19 February 2018, Myrtyle Ventures Ltd, being the direct Parent Company of SIA European Lingerie Group, contributed SIA European Lingerie Group shares into the equity of European Lingerie Group AB. As a result, the direct Parent Company of SIA European Lingerie Group changed from Myrtyle Ventures Ltd to European Lingerie Group AB.

The following table summarises the book value of assets and liabilities of SIA European Lingerie Group as per 1 January 2018:

In thousands of EUR	*Note*	
Property, plant and equipment	*17*	12,389
Intangible assets	*19*	10,499
Deferred tax assets		3,210
Inventories		15,162
Trade and other receivables		19,066
Contract assets		1
Prepayments		585
Cash and cash equivalents		1,874
Loans and borrowings		(33,606)
Net employee benefit liability		(4,490)
Deferred tax liabilities		(2,032)
Trade and other payables		(14,369)
Provisions	28	(359)
Deferred income		(1,092)
Total		**6,838**

Business combinations

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	17	4
Right-of-use assets	18	53
Inventories		2
Trade and other receivables		25
Cash and cash equivalents		28
Loans and borrowings	29	(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	10	**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

On 14 June 2018 the Group acquired 100% of shares and voting rights in Dessus-Dessous S.A.S, the largest online retailer of lingerie and swimwear in France. With the acquisition of Dessus-Dessous S.A.S the Group will expand to the online retail segment of the lingerie market which reinforces its strategic commitment to building a truly vertically integrated business.

The following table summarises the acquisition-date fair value of each major class of consideration transferred:

In thousands of EUR	Note	
Cash		6,000
Deferred consideration payable in 2019	27	315
Total		**6,315**

The Group has agreed to pay the selling shareholder additional consideration of up to EUR 1,333 thousand if the acquiree's EBITDA for the financial year 2018 exceeds the reference level as per sale and purchase agreement. The Group has estimated the fair value of contingent consideration at the date of acquisition to be zero.

The Group incurred acquisition related costs of EUR 151 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	17	149
Intangible assets	19	3,083
Deferred tax assets		20
Inventories		2,507
Trade and other receivables		69
Contract assets		14
Prepayments		39
Cash and cash equivalents		290
Trade and other payables		(824)
Provisions	28	(87)
Deferred tax liabilities		(1,267)
Total		**3,993**

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Inventories	*Market comparison technique:* The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.
Customer relations	*Multi-period-excess-earnings-method:* The valuation method considers the present value of net cash flows expected to be generated by repeated customer relationships. The following key assumptions were used: discount rate of 12.7%; cash flows forecast period of 5 years; share of revenue generated by repeat customers ranging from 64.6% in 2018 to 45.2% in 2021; turnover growth rates of 4.6%, 9.1%, 19.2%, 10.0% and 10.0% in 2018, 2019, 2020, 2021 and 2022 respectively.
Brands	*Relief-from-royalty-method:* The valuation method considers the discounted estimated royalty payments that are expected to be avoided as a result of the trademark being owned. The following key assumptions were used: discount rate of 12.2%; royalty rate of 2.2% of net revenue generated; turnover growth rates same as for customer relations valuation and 1.5% turnover growth rate from the year 2023 and onward

Goodwill arising from the acquisition has been

recognised as follows:

In thousands of EUR	Note	
Consideration transferred		6,315
Book value of identifiable net assets		(3,993)
Goodwill	*16*	**2,322**

For the six months ended 31 December 2018, Dessus-Dessous S.A.S contributed revenue of EUR 3,478 thousand, net profit of EUR 34 thousand to the Group's results. The Company would have contributed revenue of EUR 7,248 thousand and net profit of EUR 241 thousand to the Group's results had the acquisition occurred on 1 January 2018.

During 2019 the Group paid EUR 226 thousand for Dessus-Dessous S.A.S. Consideration remaining payable was EUR 51 thousand at 31 December 2019.

AO Avangard

During 2019 the Group paid the remaining EUR 11 thousand (2018: EUR 1,532 thousand) for AO Avangard, which was acquired in 2017.

34. 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	*19*	(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	*10*	**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.

35. 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 2019 are disclosed in Note 18.

For carrying amounts and movement in lease liabilities during the reporting period refer to Note 29.

The maturity analysis of lease liabilities is disclosed in Note 32 (iii).

The following are the amounts recognised in profit or loss:

In thousands of EUR	Note	2019
Depreciation expense of right-of-use assets	*18*	1,386
Interest expense on lease liabilities	*29*	311
Expense relating to short-term leases (included in other operating expenses)	*13*	325
Total amount recognised in profit or loss		**2,022**

During 2019, the Group entered into a sale and leaseback agreement, the details of which are disclosed in Note 29.

Leases as lessor

LSEZ Lauma Fabrics SIA leases out some premises within its main building in Liepaja, Latvia. The build-

ing 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 4,501 thousand at 31 December 2019.

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

In thousands of EUR	2019	2018
Less than one year	3	53
Between one and five years	-	-
Total	**3**	**53**

36. 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 (31 December 2018: EUR 500 thousand). The amount of actual Tele Textile Latvia SIA payables outstanding in favour of the creditor at 31 December 2019 was EUR 226 thousand (31 December 2018: EUR 144 thousand);
- a guarantee on finance lease liabilities of Tele Textile Latvia SIA to SIA Citadele lizings un faktorings up to the limit of EUR 69 thousand (31 December 2018: EUR 103 thousand). The amount of actual Tele Textile Latvia SIA payables outstanding in favour of the creditor at 31 December 2019 was EUR 69 thousand (31 December 2018: EUR 103 thousand);
- 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 (31 December 2018: EUR 500 thousand). The amount of actual Tele Textile Latvia SIA letters of credit outstanding at 31 December 2019 was EUR 110 thousand (31 December 2018: EUR 227 thousand).

The Group regularly assesses the necessity to recognise provisions in respect of the issued guarantee. At 31 December 2019 and 31 December 2018 no provisions were recognised for the issued guarantees as the management estimates the likelihood and magnitude of an outflow of resources as low.

37. Related parties

Transactions with key management personnel

Key management personnel compensation for the reporting period amounted to EUR 933 thousand and comprised only short-term employee benefits in the form of salaries and social contributions (2018: EUR 1,012 thousand).

Other related party transactions

In thousands of EUR	Transaction values for the period ended 31 December 2019	Balance outstanding at 31 December 2019	Transaction values for the period ended 31 December 2018	Balance outstanding at 31 December 2018
Sales of goods and services				
Joint ventures	44	-	48	-
Other related parties	69	-	89	-
Purchases of goods and services				
Shareholders	5	-	56	-
Other related parties	457	-	1,980	-
Interest income accrued during the year				
Joint ventures	41	-	42	-
Shareholders	4	-	5	-
Interest expense accrued during the year				
Shareholders	-	-	20	-
Key management personnel	-	-	6	-
Loans granted				
Shareholders	-	-	77	-
Trade and other receivables, gross amount				
Shareholders	-	25	-	-
Joint ventures	-	6	-	52
Other related parties	-	1,023	-	617
Allowance for trade and other receivables				
Joint ventures	-	-	-	(28)
Other related parties	-	(737)	-	(617)
Prepayments				
Other related parties	-	-	-	41
Other payables				
Shareholders	-	-	-	10
Other related parties	-	-	-	2
Loans receivable, gross amount				
Joint ventures	-	525	-	607
Shareholders	-	134	-	134
Allowance for loans receivable				
Joint ventures	-	(102)	-	(460)
Interest receivable				
Joint ventures	-	148	-	99
Shareholders	-	12	-	8

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 134 thousand of loans receivable from shareholders at 31 December 2019 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 607 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 May 2021 and carries the interest rate of 7% per annum. Impairment loss in the amount of EUR 102 thousand was estimated by the Group at 31 December 2019 (31 December 2018: EUR 406 thousand).

38. 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 (2018: EUR 364 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.

39. Subsequent events

Breach of bond covenant and actions taken

The Group reported in the reports for nine months and third quarter 2019 and for twelve months and fourth quarter 2019 that the Group's Net Interest Bearing Debt to EBITDA ratio exceeded the maximum 4.25 allowed under the maintenance test of the Original Bond Terms and Conditions issued on 22 February 2018. On 16 January 2020, the Parent completed a written procedure under the Terms and Conditions to waive the maintenance test default for the reference period ending on 30 September 2019 and to adjust the maintenance test for the reference period ending on 31 December 2019. However, it was a condition for the amendments to the Terms and Conditions to come into effect that a capital contribution by way of equity and/or subordinated loans is provided to the Group.

Due to COVID-19 pandemic, the Group has not been able to raise the required amount of equity in full. 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 2019, have not come into effect, which has resulted in the continuing breach of the maintenance test.

In order to fulfil the conditions precedent of the Amended Bond Terms and Conditions, the Group has also provided to Intertrust (Sweden) AB a market valuation dated 30 January 2020 of the Group's factory and real estate property in Liepaja, Latvia, prepared by Latio LLC, and granted additional security over the trademarks Felina and Conturelle and over E|L|B GmbH and Felina Hungaria Kft shares.

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. On 29 July 2020 it reached an agreement on the standstill with the Bondholder Committee (representing approximately 60 per cent of the total nominal amount of the bonds) regarding the Group's defaults under the Terms and Conditions as well as a cooperation between the Group and the Bondholder Committee to explore and execute a potential restructuring of the Group and the Bonds. Restructuring may include, inter alia, new investor(s) coming in, and the write down of the nominal amount and interest under the Bonds in combination with a cash repayment and/or debt to equity swap. The long stop date for the standstill is 30 November 2020 (the "Standstill Period"), however the Standstill Period may be extended or, if certain conditions of the standstill agreement are not met, apse at any time prior to such date.

It is noted that the completion of any restructuring measures agreed upon during the Standstill Period is subject to the approval of a written procedure to be held in accordance with the Terms and Condi-

tions.

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

- not to instruct Intertrust (Sweden) AB (the "Agent") to accelerate the bonds due to the Group's failure to (a) comply with the maintenance test covenant for Q3 and Q4 2019 as well as Q1 and Q2 2020, (b) pay interest in respect of the bonds on the Interest Payment Date for the interest period ending on 22 May 2020 an on 22 August 2020, (c) comply with Clause 11.1(a)(i) *(Information from the Issuer)* due to the fact that the Parent has not timely delivered the Audited Financial Report for the financial year 2019, 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 Bondholder Committee has also, provided that certain information is provided to them, agreed to the following undertaking during the Standstill Period (a) to waive any breach of Clause 13.6 *(Clean Down Period)*, (b) to confirm that costs related to the contemplated restructuring of the Group shall be considered an extraordinary item and be carved out as a cost from the EBITDA definition, (c) to waive any breach of the use of the Permitted Debt baskets in item "(b) Financial Leases", (j) Working Capital Facility" and "(o) other" of the Permitted Debt definition so that the total basket is EUR 6,000,000 but not split on items (b), (j) and (o) and (d) to waive any breach of Clause 13.8 *(Negative Pledge)* due to the additional provided specific security to the aid loans.

Coronavirus

In December 2019, a new outbreak of coronavirus 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 rise in the number of cases, most countries have declared a state of emergency, during which time a series of restrictive measures have been taken to limit the spread of the virus.

Although the restrictions were temporary and mainly were in place during March-June 2020, these events had a negative impact on the Group's financial position and results of operations in 2020. At the date of signing these financial statements the impact of the Covid-19 outbreak on the four core business areas of the Group and respective measures taken to minimise the negative impact are as follows:

Felina GmbH and other E|L|B GmbH group entities

The sales of Felina GmbH and its group entities started to slow down in mid-March 2020 and it was directly linked to the closing down of stores in the Group's core markets (either mandatory or voluntarily) – initially in Italy, Spain and France, and followed by Germany and other countries. Russia was the last to implement the measures related to the Covid-19 outbreak, therefore this market was still open for trading until April 2020, and the sales in Russia dropped only then. Felina sales have lost volume as a result of the close down of stores and channels.

As response measures for Felina GmbH (German core operations) – in Germany support from the government is available in the form of 'Kurzarbeit' financing to the Covid-19 outbreak, whereby 60% (or 67%) of net salaries of the employees in downtime are paid by the state directly to the respective employees, and the employer does not carry any costs (including payroll taxes) for the employees in downtime ('Kurzarbeit'). Felina GmbH has implemented said measures for most of its employees starting from 7 April 2020. Payroll expenses in Germany is one of the largest fixed cost positions of the Group.

With respect to the trading entities – most of the employees were in paid downtime during March-June 2020 and the entities have applied for the support of the respective states to the extent available.

With regard to the production unit Felina Hungaria Kft., the entity has decreased the number of employees by around 7% – mainly the elderly employees, who have the right to receive a pension. Paid vacation for most of the Felina Hungaria Kft. staff was initiated on 7 April 2020. The negative effect of Felina Hungary has been partially offset by orders for the production of textile masks, which allows the Group to use majority of the capacity of the factory May-July 2020.

Felina GmbH produces and sources goods in Europe, whereas most of its competitors rely on Asia for sourcing and production, which leads to a short-term competitive advantage for the Group. In the long run, the reliability and local sourcing

might become a relevant factor in the customer sourcing preferences. The Group also sees the possibility of medium-term sewing capacity sale. Felina GmbH is well-positioned to service customer demand from its readily available stock as soon as demand picks up.

LSEZ Lauma Fabrics SIA and its group entities

Up until the last week of March 2020, cancellations and postponements of orders were only observed for clients from Western markets, but not for clients from Eastern markets. However, in the last week of March 2020 the Group saw postponements of orders and a major slow-down of incoming payments by customers from Eastern markets as well. Furthermore, Russia announced a 'public holiday' lockdown, which was recently prolonged until the end of May 2020. Most of the customers of LSEZ Lauma Fabrics SIA suspended their orders and closed their production during the lockdown period.

As response measures for LSEZ Lauma Fabrics SIA, the management initiated downtime for the employees of LSEZ Lauma Fabrics SIA, which commenced on April, 6 and lasted until June, 15. Said downtime was partially financed by the government of Latvia. Part of the sales department continued to service and arrange for shipments for the customers, that placed orders. Purchase of supplies was postponed, but the entity maintained a close cooperation with its suppliers.

The German production units of LSEZ Lauma Fabrics SIA have applied for downtime and have implemented 'Kurzarbeit' on the same terms as for Felina GmbH, which is still partially in place as of the date of this Report.

In the textile segment the management expects, that some competitors might not overcome this period. To-date LSEZ Lauma Fabrics SIA has received, and expects to keep receiving, counter sample requests from European lingerie brands with the intent to potentially switch their purchase of materials to LSEZ Lauma Fabrics SIA; this has also the purpose of sourcing in Europe instead of their current sourcing in Asia. The management also expects a trend by European brands to diversify their sourcing and believes that sourcing in Europe will increase. Furthermore, LSEZ Lauma Fabrics SIA is well positioned-for the pick-up of operations, once the restrictions are lifted, and its finished-goods stock is sufficient to provide fast deliveries to the customers, and the reserves of material stock will allow to promptly restart the production process as soon as customer demand revives.

The production of the medical units of the Group LSEZ Lauma Medical SIA) was also on government supported downtime during June 2020 while AO Avangard continued to work. The main products traded by the entities are elastic belts/supports and bandages. The largest market is Russia. LSEZ Lauma Medical SIA is a branded and highly priced product, and it is mainly distributed through pharmacies, which remain open. However, due to cancellation of planned surgeries where Lauma Medical elastic bandages are widely used, a similar decreasing sales trend was experienced in the medical segment in Q2 2020 as in the textile and lingerie. The sales are expected to recover to previous level upon release of the lockdown and restart of planned surgery operations.

Dessus-Dessous S.A.S.

Dessus-Dessous S.A.S. is a premium online store for the sale of high-end lingerie, with its key market being France. After a weak 2019, the entity has had a healthy, stable business growth rate. The business was up and running during the whole lockdown period with the highest sales increase rates faced in the last two years. The impact of the Covid-19 outbreak in Dessus-Dessous S.A.S. mainly stemmed from employee absence, a lower supply of garments (brands continue to ship, but less frequently) and mailing/post overload. However, customers continued to shop online and in the long-term the management observes, that the business is well-positioned to capture the general trend of online-shopping.

Concluding remarks

As the management looks forward, and the Group has adapted itself and its operations to various restrictions imposed by local governments to contain the further spread of Covid-19, the Group appreciates the patience and cooperation of its customers, suppliers, employees and financiers. Furthermore, the management believes the best solution has been reached in respect of the bonds and anticipates constructive cooperation to continue with the Bondholder Committee going forward. 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. Following release of lock-

down restrictions, all of the Group companies are experiencing upwards trading trend currently and production has been resumed after low periods from March to June. The management believes the reached Standstill Agreement is good news for all the Group, its employees, clients and suppliers, and will have no or limited impact on operations of the Group companies.

EUROPEAN LINGERIE GROUP AB

PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Parent Company statement of profit or loss and other comprehensive income

In thousands of EUR	*Note*	2019	23 November 2017 - 31 December 2018 Restated*
Revenue	*43*	**116**	**49**
Other operating income		102	10
Employee benefits expense	*44*	(130)	(126)
Other operating expenses	*45*	(707)	(1,331)
Operating loss		**(619)**	**(1,398)**
Finance income	*46*	2,410	2,111
Finance costs	*47*	(3,728)	(3,132)
Net finance costs		**(1,318)**	**(1,021)**
Loss before income tax		**(1,937)**	**(2,419)**
Income tax expense	*48*	(13)	-
Loss for the year		**(1,950)**	**(2,419)**
Other comprehensive income		**-**	**-**
Total comprehensive income		**(1,950)**	**(2,419)**

* Refer to Note 42 for the explanation of the figures restated in the period from 23 November 2017 to 31 December 2018.

The accompanying notes on pages 87 to 95 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

Parent Company statement of financial position

As at 31 December

In thousands of EUR	*Note*	2019	2018
Assets			
Shares in subsidiaries	*49*	46,328	46,309
Receivables from Group companies	*50*	33,277	33,795
Total non-current assets		**79,605**	**80,104**
Receivables from Group companies	*50*	166	172
Other receivables	*50*	208	23
Prepaid expenses and accrued income		31	127
Cash and bank	*51*	6	40
Total current assets		**411**	**362**
Total assets		**80,016**	**80,466**
Equity			
Restricted equity			
Share capital	*52*	60	60
Non-restricted equity			
Other paid in capital	*52*	43,500	43,500
Net income		(4,369)	(2,419)
Total equity		**39,191**	**41,141**
Liabilities			
Loans and borrowings	*54*	723	38,713
Deferred tax liabilities		13	-
Total non-current liabilities		**736**	**38,713**
Loans and borrowings	*54*	39,280	-
Liabilities to Group companies	*55*	158	58
Other liabilities	*55*	195	109
Accrued expenses and deferred income	*55*	456	445
Total current liabilities		**40,089**	**612**
Total liabilities		**40,825**	**39,325**
Total equity and liabilities		**80,016**	**80,466**

The accompanying notes on pages 87 to 95 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

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 23 November 2017		**-**	**-**	**-**	**-**
Total comprehensive income					
Loss for the period		-	-	(2,419)	(2,419)
Total comprehensive income		**-**	**-**	**(2,419)**	**(2,419)**
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares	*52*	60	-	-	60
Shareholder contribution received		-	43,500	-	43,500
Total contributions and distributions		**60**	**43,500**	**-**	**43,560**
Total transactions with owners of the Company		**60**	**43,500**	**-**	**43,560**
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**

The accompanying notes on pages 87 to 95 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

Parent Company statement of cash flows

In thousands of EUR	*Note*	2019	23 November 2017 - 31 December 2018
Cash flows from operating activities			
Loss for the reporting period		**(1,950)**	**(2,419)**
Adjustments for:			
Finance income	*46*	(2,408)	(2,110)
Finance costs	*47*	3,725	3,130
Foreign exchange gains	*46*	(2)	(1)
Foreign exchange losses	*47*	3	2
Income tax expenses	*48*	13	-
Changes in:			
Trade and other receivables		12	(65)
Prepaid expenses and accrued income		96	(127)
Liabilities		180	281
Cash generated from operating activities		**(331)**	**(1,309)**
Interest paid	*54*	(3,143)	(2,351)
Net cash used in operating activities		**(3,474)**	**(3,660)**
Cash flows from investing activities			
Interest received		708	21
Proceeds from repayment of loans issued		2,449	8,535
Acquisition of subsidiary	*49*	(44)	(2,809)
Deposits placed in restricted accounts		-	(5)
Loans issued to Group companies		(396)	(40,372)
Net cash from/(used in) investing activities		**2,717**	**(34,630)**
Cash flows from financing activities			
Proceeds from issue of share capital	*52*	-	60
Proceeds from bonds issue	*54*	-	40,000
Transaction costs related to bonds issue	*54*	-	(1,730)
Proceeds from loans issued by Group companies	*54*	723	-
Net cash from financing activities		**723**	**38,330**
Net increase/(decrease) in cash and bank		**(34)**	**40**
Cash and bank at 1 January / 23 November	*51*	40	-
Cash and bank at 31 December	*51*	**6**	**40**

The accompanying notes on pages 87 to 95 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 August 2020 and signed by

Carl Oscar Edgren
Chairman of the Board

Dmitry Ditchkovsky
Board member

Indrek Rahumaa
Board member

Stockholm, 17 August 2020

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

40. Information on the Parent Company

General information

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

Type of operations

The Company carries out holding operations through investing in and managing assets involved in manufacturing, processing, wholesale and retail of textiles and lingerie products.

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

European Lingerie Group AB was registered on 23 November 2017. Shortly after its registration, on 19 February 2018 the Company became the Parent company of SIA European Lingerie Group and its 17 subsidiaries. The shareholder change was accomplished by way of contributing SIA European Lingerie Group shares into the equity of European Lingerie Group AB by its shareholder Myrtyle Ventures Ltd.

On 22 February 2018, the Parent issued new bonds in Sweden in the amount of EUR 40,000,000. The issued bonds are senior secured bonds with a maturity of 3 years and since 2 January 2019 are listed on Nasdaq Stockholm.

In January 2019 the Company acquired Yustina OOO (later renamed to Senselle OOO), a lingerie ready garment producer in Belarus (Note 33).

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. Later Brafetch GmbH was sold in June 2019 (Note 34).

41. 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.

42. Correction of errors

During 2019, the Parent discovered that management fee income from Group companies in the amount of EUR 49 thousand had been mistakenly recognised within other operating income line item in the statement of profit or loss and OCI instead of revenue line item in the prior period. The error has been corrected by restating each of the affected line items for the prior period. The following table summarises the impacts on the Parent's statement of profit or loss and OCI.

23 November 2017 - 31 December 2018

In thousands of EUR	As previously reported	Adjust-ments	As Restated
Revenue	-	49	49
Other operating income	59	(49)	10
Loss for the period	**(2,419)**	**-**	**(2,419)**
Total comprehensive income	**(2,419)**	**-**	**(2,419)**

43. Revenue

Revenue of the Parent includes management fee income received from Group companies in the amount of EUR 116 thousand (2018: EUR 49 thousand).

44. Employee benefits expense

In thousands of EUR	2019	23 November 2017 - 31 December 2018
Wages and salaries	107	102
Social security contributions	23	24
Total	**130**	**126**

As of 31 December 2019, the Parent Company employed 2 people, all of whom are members of the Board of Directors (31 December 2018: 3 people). For details on Board remuneration and related social security costs in the reporting period refer to Note 12 of the consolidated financial statements.

45. Other operating expenses

In thousands of EUR	2019	2018
Professional services	440	831
Professional services from Group companies	80	300
Travel expenses recharged by Group companies	33	62
Bank services	6	21
IT and communication	3	1
Insurance	3	-
Other operating expenses	133	100
Other operating expenses to Group companies	9	16
Total	**707**	**1,331**

46. Finance income

In thousands of EUR	2019	2018
Interest income under the effective interest method from Group companies on:		
Receivables from Group companies	2,408	2,110
Total interest income arising from financial assets measured at amortised cost	**2,408**	**2,110**
Foreign exchange gains	2	1
Finance income – other	**2**	**1**
Total	**2,410**	**2,111**

47. Finance costs

In thousands of EUR	2019	2018
Interest expense on financial liabilities measured at amortised cost	3,725	3,130
Foreign exchange losses	3	2
Total	**3,728**	**3,132**

EUR 3,725 thousand of interest expense in the reporting period 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

EUR 3,130 thousand of interest expense in 2018 year consist of EUR 2,687 thousand of interest expense on loans and borrowings, EUR 443 thousand of interest expense related to the amortisation of transaction costs on bonds issue which were deducted from the bond nominal value.

48. Income tax expense

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

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

In thousands of EUR	2019	2018
Current tax expense	**-**	**-**
Deferred tax expense	**13**	**-**
Origination and reversal of temporary differences	13	-
Income tax expense reported in profit or loss	**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	2019	23 November 2017 - 31 December 2018
Loss before tax	**(1,937)**	**(2,419)**
Tax using the Parent's domestic tax rate	(415)	(532)
Tax effect of:		
Tax-exempt income	-	(11)
Other differences	16	-
Change in unrecognized deferred tax	412	543
Income tax expense reported in profit or loss	**13**	**-**

Movements in deferred tax balances are as follows:

In thousands of EUR	Net balance at 31 December 2018	Recognised in profit or loss	Net	31 December 2019 Deferred tax assets	Deferred tax liabilities
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)**

In thousands of EUR	Net balance at 23 November 2017	Recognised in profit or loss	Net	31 December 2018 Deferred tax assets	Deferred tax liabilities
Tax losses carried forward	-	543	543	543	-
Unrecognised tax losses	-	(543)	(543)	(543)	-
Tax assets (liabilities) before set-off	**-**	**-**	**-**	**-**	**-**
Set-off of tax	**-**	**-**	**-**	**-**	**-**
Net tax assets (liabilities)	**-**	**-**	**-**	**-**	**-**

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	2019 Gross amount	Tax effect
Tax losses	4,464	955

In thousands of EUR	2018 Gross amount	Tax effect
Tax losses	2,419	543

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

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

In thousands of EUR	31 December 2018	Expiry period
Expire	-	-
Never expire	2,419	-
Total	**2,419**	**-**

49. 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 2019	31 December 2018
SIA European Lingerie Group	100%	43,500	43,500
Felina France S.a.r.l.	100%	2,809	2,809
Senselle OOO	100%	19	-
Total		**46,328**	**46,309**

In January 2019, the Company acquired Yustina OOO (later renamed to Senselle OOO) for EUR 19 thousand (see Note 33 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 34 for more details).

50. Other receivables

In thousands of EUR	*Note*	2019	2018
Financial other receivables			
Loans to Group companies	*57*	33,277	33,795
Other receivables due from Group companies	*57*	166	172
Other receivables due from related parties	*57*	195	-
Other receivables		5	5
		33,643	**33,972**
Non-financial other receivables			
VAT receivable		6	18
Deferred expenses		2	-
		8	**18**
Total		**33,651**	**33,990**
Non-current		33,277	33,795
Current		374	195
Total		**33,651**	**33,990**

For terms and conditions relating to related party receivables, refer to Note 57.

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 56.

51. Cash and bank

In thousands of EUR	2019	2018
Bank balances	6	40
Total	**6**	**40**

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

52. Capital and reserves

Restricted equity

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

Share capital

Number of shares	2019	2018
Opening balance	60,000	-
Issued for cash	-	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 1,950 thousand (2018: EUR 2,419 thousand).

Dividends

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

53. Going concern

As at 31 December 2019 net loss of the Company for the period ended 31 December 2019 amounted to EUR 1,950 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 depends on the fulfilment of the conditions defined in the Bond Terms and Conditions or alternatively on agreements reached with the bondholders in respect of amendments to be made to these conditions or necessary waivers obtained from the bondholders in respect of breaches to the bond covenants. Furthermore, the going concern also depends on the successful raising of the external capital needed for fulfilment of the contemplated restructuring of the Bonds as per the standstill agreement described in Note 39 of the consolidated financial statements. If the planned restructuring of the financial structure and raising external capital does not take place, it might lead to a significant uncertainty about the Company's ability to continue as a going concern.

54. Loans and borrowings

As at 31 December 2019 loans and borrowings comprise secured bonds in the amount of EUR 39,280 thousand (31 December 2018: EUR 38,713 thousand) and loans from Group companies in the amount of EUR 723 thousand (31 December 2018: none).

Information about the Company's exposure to interest rate, foreign currency and liquidity risks is included in Note 56.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

				31 December 2019		31 December 2018	
In thousands of EUR	Currency	Nominal interest rate	Year of maturity	Nominal value	Carrying amount	Nominal value	Carrying amount
Secured bonds	EUR	3m Euribor + 7.75%	2021	40,000	39,280	40,000	38,713
Loans from Group Companies	EUR	4.00%	2024	723	723	-	-
Total interest-bearing liabilities				**40,723**	**40,003**	**40,000**	**38,713**

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

	Bonds	
In thousands of EUR	2019	2018
Balance at 1 January 2019 / 23 November 2017	**39,049**	**-**
Changes from financing cash flows		
Proceeds from loans and borrowings	723	-
Proceeds from bonds issue	-	40,000
Transaction costs related to bonds issue	-	(1,730)
Total changes from financing cash flows	**723**	**38,270**
Other changes		
Liability-related		
Interest expense	3,158	2,687
Interest expense (amortisation of transaction costs)	567	443
Interest paid	(3,143)	(2,351)
Total liability-related other changes	**582**	**779**
Balance at 31 December	**40,354**	**39,049**

55. Other liabilities

In thousands of EUR	2019	2018
Financial other payables		
Accrued interest on bonds	336	336
Other payables to Group companies	158	58
Other accrued expenses	105	109
Payables to personnel	103	29
Other payables	65	62
Accrued interest on loans from Group companies	15	-
Other payables to related parties	-	12
	782	**606**
Non-financial other payables		
Personal income tax payable	10	3
Social contributions payable	17	3
	27	**6**
Total	**809**	**612**
Non-current	-	-
Current	809	612
Total	**809**	**612**

For terms and conditions relating to related party receivables, refer to Note 57.

Information about the Company's exposure to liquidity risk is included in Note 56.

56. 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 thousands of EUR	*Note*	Carrying amount 31 December 2019	Carrying amount 31 December 2018	Fair value 31 December 2019	Fair value 31 December 2018	Fair value level
Financial assets not measured at fair value						
Financial assets at amortised cost						
Loans to Group companies	*50*	33,277	33,795	31,390	31,725	Level 3
		33,277	**33,795**	**31,390**	**31,725**	
Financial liabilities not measured at fair value						
Financial liabilities at amortised cost						
Bonds and interest accrued		39,616	39,049	40,466	40,580	Level 3
Loans from Group Companies and interest accrued		738	-	599	-	Level 3
		40,354	**39,049**	**41,065**	**40,580**	

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 32 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	2019	2018
Baltic States	191	29
Germany	139	135
Other countries	36	13
Total	**366**	**177**

The Company uses the same approach in the calculation of ECLs of other receivables as the Group, including intragroup receivables (refer to Note 32 (ii)). There was no impairment allowance recognised by the Company as of 31 December 2019 and 2018.

Loans issued to Group companies

Loans issued by the Company include only loans issued to its subsidiaries (refer to Note 57 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	2019	2018
Germany	15,562	18,678
Baltic States	13,732	11,478
France	3,815	3,639
Belarus	168	-
Total	**33,277**	**33,795**

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 2019 and 2018.

The Company holds no collateral in respect of loans issued.

Cash and cash equivalents

The Company held cash and cash equivalents of EUR 6 thousand as at 31 December 2019 (31 December 2018: EUR 40 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.

(i) 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 2019. 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	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**

The following are the remaining contractual maturities of financial liabilities at 31 December 2018:

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	39,049	1,559	1,584	3,143	40,792	47,078
Other payables	270	270	-	-	-	270
	39,319	**1,829**	**1,584**	**3,143**	**40,792**	**47,348**

(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	2019	2018
Fixed-rate instruments		
Financial assets	3,983	3,654
Financial liabilities	(738)	-
Net position	**3,245**	**3,654**
Variable-rate instruments		
Financial assets	29,294	30,141
Financial liabilities	(39,616)	(39,049)
Net position	**(10,322)**	**(8,908)**

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 26 thousand after tax as at 31 December 2019 (31 December 2018: EUR 29 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 81 thousand at 31 December 2019 (31 December 2018: EUR 69 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

57. Related parties

Transactions with key management personnel

Key management personnel compensation for the reporting period amounted to EUR 130 thousand and comprised only short-term employee benefits in the form of salaries and social contributions (2018: EUR 126 thousand).

Other related party transactions

In thousands of EUR	Transaction values for 2019	Balance outstanding at 31 December 2019	Transaction values for the period 23 November 2017 - 31 December 2018	Balance outstanding at 31 December 2018
Sales of goods and services				
Subsidiaries	218	-	58	-
Purchases of goods and services				
Subsidiaries	122	-	378	-
Shareholders	5	-	56	-
Other related parties	177	-	1,321	-
Interest income accrued during the year				
Subsidiaries	2,408	-	2,110	-
Loans granted				
Subsidiaries	396	-	40,372	-
Loans received				
Subsidiaries	723	-	-	-
Other receivables				
Other related parties	-	170	-	-
Subsidiaries	-	166	-	172
Shareholders	-	25	-	-
Loans receivable				
Subsidiaries	-	28,579	-	30,798
Interest receivable				
Subsidiaries	-	4,698	-	2,997
Loans payable				
Subsidiaries	-	723	-	-
Interest payable				
Subsidiaries	-	15	-	-
Trade and other payables				
Subsidiaries	-	158	-	58
Shareholders	-	-	-	10
Other related parties	-	-	-	2

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. The loan carrying amount along with accrued interest was EUR 1,854 thousand as of 31 December 2019 (31 December 2018: EUR 1,965 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. The loan carrying amount along with accrued interest was EUR 11,878 thousand as of 31 December 2019 (31 December 2018: EUR 9,514 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 andpart of the loan was repaid during 2019. The loan carrying amount along with accrued interest was EUR 15,562 thousand as of 31 December 2019 (31 December 2018: 18,662 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. The loan carrying amount along with accrued interest was EUR 3,815 thousand as of 31 December 2019 (31 December 2018: 3,488 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. EUR 7 thousand were repaid during the year. 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 168 thousand as of 31 December 2019.

58. Audit remuneration

Audit remuneration amounted to EUR 38 thousand in the reporting period (2018: EUR 40 thousand) and comprised audit fees only. There were no other services provided to the Company by Ernst & Young AB in 2019.

59. Subsequent events

Refer to Note 39 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, 17 August 2020

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

Stockholm, 17 August 2020

AUDITOR'S STATEMENT IN THE ANNUAL REPORT

Our audit report was submitted on 17 August 2020, in where we do not recommend that the statement of profit or loss is adopted.

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

Opinion, opinion with reservation and adverse opinion respectively

We have audited the annual accounts and consolidaWe have audited the annual accounts and consolidated accounts of European Lingerie Group AB (publ) except for the corporate governance statement on pages 12-14 for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 5-96 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 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. Except for the effects of the conditions described in *Basis for Opinions*, 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 2019 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.

Our opinions do not cover the corporate governance statement on pages 12-14. 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 statement of financial position for the group. As an effect of the conditions described in the section *Basis for Opinions* we do not recommend that the general meeting of shareholders adopts the statement of profit or loss for the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

The Group has incorrectly reported other operating income of EUR 614,000 relating to previous years' vested options in its subsidiary European Lingerie Group SIA for which in 2019 it has been determined that they will not be redeemed. A correct treatment under IFRS would have been to recognize this item against equity. The group's profit and comprehensive income for the year is thus too high by the corresponding amount.

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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Other matters

The audit of the annual accounts for 2018 was performed by another auditor who submitted an auditor´s report dated 30 April 2019, with unmodified opinions in the Report on the annual accounts.

Material uncertainty related to going concern

We would like to draw attention to the information in the administration report and the notes 25 Going concern and 39 Subsequent events which show that going concern for the group is dependent on that the planned restructuring with external capital injections is executed or dependent on bond holders continued waiver on future breaches to the bond agreement terms.

Should the planned restructuring, where external capital is provided, not be able to be carried out to

the extent that the board of directors expects, there is a significant uncertainty that could lead to significant doubts about the company's ability to continue its operations. We have not modified our statement because of this.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. In addition to the basis of opinion with reservation regarding the statement of profit or loss for the group and the significant uncertainty related to assessment of going concern we have identified other key audit matters which are described below. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Revenue recognition

Description	*How our audit addressed this key audit matter*
The Group's total revenues for 2019 amounted to 77,323 KEURO. Of total revenue, 76,450 KEURO relates to sales of goods. Applied accounting principles for revenue recognition are described by the company in Note 3.4 and Note 9. In short, revenues attributable to sales of goods are reported when it is deemed probable that payment will be received and when all performance obligations have been fulfilled. Revenue recognition is associated with elements of estimates in the form of rebates to customers, risks of revenue reductions and when the performance obligations are fulfilled, which is why this has been assessed as a key audit matter in our audit.	In our audit, we have evaluated the company's revenue recognition processes. We have performed detailed analyzes regarding different agreements and different revenue streams. We have randomly examined that the performance obligations have been fulfilled in connection with the financial statements to ensure that income has been accrued correctly. We have reviewed the basis for assessments, calculations and accruals regarding estimates linked to customer discounts and bonuses. Our review has been concentrated on the units within the Group that have been deemed to be material to the audit, either based on materiality or risk. We have reviewed the disclosures provided in the annual accounts.

Valuation of goodwill, brand names and shares in subsidiaries

Description	*How our audit addressed this key audit matter*
As of December 31, 2019, the Group reports goodwill to a value of EUR 6,775 and brands names to a value of EUR 5,987. Goodwill and brand names constitute intangible assets without indefinite useful life that are not amortized on an ongoing basis. Shares in Group companies are reported in the Parent Company at a value of EUR 46,328 as of December 31, 2019. The European Lingerie Group annually tests, and in the event of an indication of impairment, that reported values do not exceed estimated recoverable amounts for these assets. The recoverable amounts are determined through a present value calculation of future cash flows per cash flow-generating unit and are based on the expected outcome of a number of factors based on management's forecasts. The impairment test for 2019 resulted in an impairment of goodwill of 182 KEURO relating to the cash-generating unit Dessus-Dessous S.A.S. No other write-downs have been made in the 2019 financial reports. As a result of the assessments and significant assumptions required when calculating the value in use, we have assessed the valuation of goodwill and participations in Group companies as a key audit matter in the audit. A description of this and the impairment test performed can be found in Note 4.1 and Note 19.	In our audit, we have evaluated the company's revenue recognition processes. We have performed detailed analyzes regarding different agreements and different revenue streams. We have randomly examined that the performance obligations have been fulfilled in connection with the financial statements to ensure that income has been accrued correctly. We have reviewed the basis for assessments, calculations and accruals regarding estimates linked to customer discounts and bonuses. Our review has been concentrated on the units within the Group that have been deemed to be material to the audit, either based on materiality or risk. In our audit, we have evaluated management's process for preparing impairment tests. With the support of our valuation specialists, we have reviewed the company's model and method for conducting impairment tests. We have evaluated the company's sensitivity analyzes and carried out our own sensitivity analyzes of key assumptions and possible influencing factors. With the support of our valuation specialists, we have also examined the reasonableness of assumptions about discount rates and long-term growth. We have reviewed the disclosures provided in the annual report.

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 intends 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.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable,

related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

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 (publ) for the year 2019 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. Addition-

al 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 12-14 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor's mandate

Ernst & Young AB, Box 7850, 103 99 Stockholm, was elected as auditors by the annual general meeting June 11, 2019 and has been the company´s auditor since that date.

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 17 August, 2020

Ernst & Young AB
Oskar Wall
Authorized Public Accountant

E | L | G

EUROPEAN LINGERIE
GROUP

www.elg-corporate.com