# Consolidated Annual Report 2019

# CONTENT

# MAXIMA GRUPĖ AT A GLANCE

In almost three decades, MAXIMA GRUPĖ, UAB together with its subsidiaries ("the Group") has grown from a single store in Vilnius into the largest Lithuania-born grocery retailer, operating 1,230 stores in the Baltic states, Poland and Bulgaria.

The start of 2019 brought the establishment of MAXIMA International Sourcing, UAB ("MAXIMA International Sourcing"), a centralized purchasing company. In Poland, the STOKROTKA and SANO retail chains were successfully merged into the single STOKROTKA brand. With continuous work, social initiatives and effective solutions, MAXIMA ensured its position as market leader in Latvia.

Last year we reconstructed a large share of existing stores and built an additional 101 new stores, mostly in Poland. Over 57% of Baltic stores have self check-out stations for faster and more convenient shopping. Furthermore, our e-grocery pioneer BARBORA not only grew in operations in the largest Baltic cities, but also expanded to regional cities in Lithuania.

Credible confirmation of our efforts was the solid BB+ credit rating with a stable outlook affirmed by Standard & Poor's. For the second year in a row, we are one of the few retailers in the Eastern and Central European region to have maintained the leading position in the market through competitive price positioning, good store-format diversity, and prudent financial policy.

In 2019 we devoted resources to making MAXIMA a more affordable, accessible and sustainable retailer. Last year in Lithuania we built the largest power plant on a grocery store in the Baltics. We also signed a 52 m EUR loan agreement with the Nordic Investment Bank under which we will allocate money for green investments and clean energy solutions.

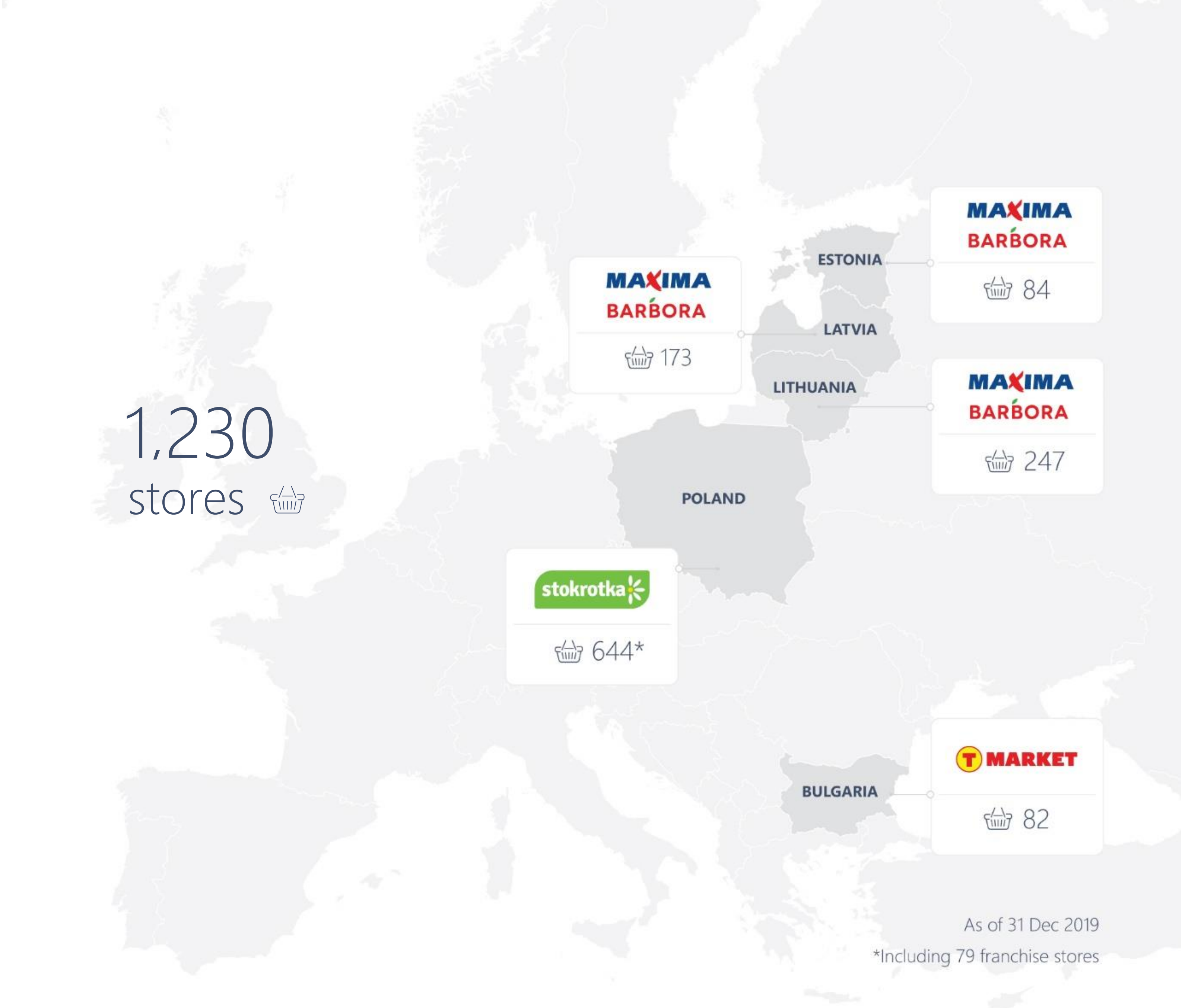
We know that there is still a long way to go. That is why we took another step – MAXIMA GRUPĖ became a member of the United Nations Global Compact, which will serve us as a roadmap for continuous improvement. By joining this initiative, we are not only fulfilling our commitments to investors and society but are also seeking to further strengthen the corporate responsibility of the Group's companies.

The cornerstone of our performance is our devoted employees. Being the biggest employer in the Baltic region and growing in Poland and Bulgaria gives us a strong responsibility.

The year 2020 has come with global challenges. However, we will do everything to ensure that every customer and employee feels safe.

This year will see new improvements and milestones. In the meanwhile, here is what we did in 2019.

# WHERE WE OPERATE




1,230
stores

As of 31 Dec 2019
*Including 79 franchise stores

# HIGHLIGHTS

## 1st quarter 2019

- In January 2019, MAXIMA International Sourcing, UAB was spun-off from FRANMAX, UAB ("FRANMAX") and established as a subsidiary of MAXIMA GRUPĖ, UAB ("the Company" or "MAXIMA GRUPĖ"; together with its subsidiaries "the Group") providing centralised supply, purchasing and negotiation services. In March 2019, a division of this company was established in Poland.
- In Poland the STOKROTKA and SANO retail chains were successfully merged into the single STOKROTKA brand.

## 2nd quarter 2019

- Jolanta Bivainytė became the CEO of MAXIMA GRUPĖ.
- Andrius Mikalauskas became the permanent CEO of Barbora, UAB ("BARBORA") in Lithuania.

## 3rd quarter 2019

- Edvinas Volkas became the Chairman of the Board and CEO of MAXIMA Eesti OU ("MAXIMA Eesti"). At MAXIMA Bulgaria EOOD ("MAXIMA Bulgaria") he was replaced by the new CEO Petar Petrov Pavlov, who had held various leading positions in the Bulgarian company since it was established in 2005.
- MAXIMA LT, UAB ("MAXIMA LT") signed a 52 m EUR 10-year loan agreement with the Nordic Investment Bank under which MAXIMA GRUPĖ's companies in the Baltics will allocate money for green investments.
- MAXIMA Bulgaria signed an agreement with the retail chain Triumf to rent 11 new stores in Plovdiv. The Bulgarian Commission on Protection of Competition approved the agreement in October 2019.
- EMPERIA HOLDING SA ("EMPERIA HOLDING"), which is owned by MAXIMA GRUPĖ, sold its subsidiary Infinite Sp.z.o.o., a supplier of IT systems, in order to focus on its core activity of retail trade in Poland.

## 4th quarter 2019

- International credit rating agency Standard & Poor's assigned MAXIMA GRUPĖ a solid BB+ credit rating with a stable outlook for a second year, citing the achievement of a leading position in the market through competitive price positioning, good store-format diversity, and prudent financial policy.
- Jolanta Bivainytė, the CEO of MAXIMA GRUPĖ, also became the CEO of FRANMAX which provided franchise services to the retail chains of the Group in Lithuania, Latvia, Estonia and Bulgaria.
- Vilma Drulienė became the CEO of MAXIMA International Sourcing, UAB. She is also the Chief Commercial Officer and a member of the Board at MAXIMA LT.
- MAXIMA GRUPĖ joined the United Nations Global Compact.
- Vilma Drulienė and Vitalij Rakovski joined the Board of MAXIMA GRUPĖ. Jolanta Bivainytė was elected as the new chairperson of the Board of MAXIMA GRUPĖ.

### 1st quarter 2020

- Viktors Troicins was appointed as the CEO of MAXIMA Latvija SIA ("MAXIMA Latvija") and Jolanta Bivainytė became the CEO of MAXIMA LT.
- Jurgita Šlekytė became the new CEO of MAXIMA GRUPĖ and FRANMAX.
- The board of MAXIMA GRUPĖ was renewed with 7 members: Jolanta Bivainytė (the chairwoman), Jurgita Šlekytė, Arūnas Zimnickas, Viktors Troicins, Edvinas Volkas, Petar Petrov Pavlov and Vitalij Rakovski.
- Reacting to the situation over the threat of the coronavirus (COVID-19), MAXIMA GRUPĖ companies introduced safety measures for employees and customers.

## Events after the reporting period

Late in 2019 news first emerged from China about the COVID-19 (coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum.

The coronavirus situation continues to evolve, however full impact of COVID-19 to the business of the Group is still unknown. We are monitoring the situation on daily basis and adjusting business operations locally as needed. We are in close communication with local state institutions and are following official guidelines.

Firstly, we take preventive measures to keep our stores clean and maintain a safe environment in all the geographies the Group operates.

Secondly, being one of the largest employers in the Baltics, we take health of our employees very seriously – any store employee who is not feeling well stays at home, moreover, majority of office associates are working remotely.

Thirdly, we are monitoring the impact of coronavirus to the supply chain. Currently supply chain is operating slower than usual, thus resulting in temporary out of shelves in the stores. However, we believe that the impact on the performance of the Group is not significant.

Fourthly, we believe that liquidity position of the Group is adequate and the Group's business exhibits strong resilience and has enough flexibility to absorb the effects of coronavirus implications and global economy recession, if any.

Last but not the least, we are quickly adapting and reacting to coronavirus situation with our e-commerce channel (BARBORA). Recently BARBORA launched nationwide pick up service in Lithuania (38 additional locations) and is expecting to roll out such pick up model in Latvia and Estonia in April 2020.

As the situation is still developing, we consider it impracticable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

There have been no other significant events after the reporting period.

Consolidated

# Revenue

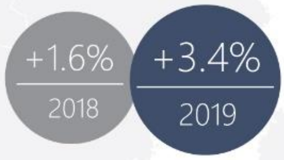

**2019 growth of revenue of retail operators by country compared to 2018, m EUR:**

| | | |
|---|---|---|
| Lithuania | 1709.7 | +4.4% |
| Latvia | 836.7 | +7.7% |
| Estonia | 486.3 | +0.9% |
| Bulgaria | 149.5 | +12.6% |
| Poland* | 886.7 | +77.0% |

*2018 include Stokrotka's revenue earned after acquisition in April 2018

Consolidated

# LFL revenue




**2019 growth of LFL revenue of retail operators by country compared to 2018:**

| | |
|---|---|
| Lithuania | +4.3% |
| Latvia | +3.2% |
| Estonia | -1.5% |
| Bulgaria | +4.7% |
| Poland* | +4.7% |

*counted in local currency

Like-for-like (LFL): same store revenue growth (not taking new or renovated stores into account)

Consolidated

# EBITDA

excl. IFRS16 impact


**2019 EBITDA (excl. IFRS16 impact) of retail operators by country compared to 2018, m EUR**

| | 2019 | 2018 |
|---|---|---|
| Lithuania | 79.9 | 83.1 |
| Latvia | 38.5 | 33.0 |
| Estonia | 4.5 | 11.7 |
| Bulgaria | 0.6 | 0.8 |
| Poland | 12.9 | 3.1 |

*full analysis of the Group's EBITDA can be found in the Group's consolidated financial statements (Note 4)

Consolidated

# EBITDA


**2019 EBITDA of retail operators by country, m EUR**

| | |
|---|---|
| Lithuania | 142.5 |
| Latvia | 61.5 |
| Estonia | 22.4 |
| Bulgaria | 5.6 |
| Poland | 55.4 |

Consolidated

# Investment

into fixed assets


Consolidated

# Net debt/EBITDA

excl. IFRS16 impact

# MAXIMA GRUPĖ

MAXIMA GRUPĖ's revenue growth continued in 2019, as revenue reached 3,993 m EUR, up 15.7% from 2018. Revenue growth was partially driven by the acquisition of the STOKROTKA retail chain in Poland in April 2018. Comparing 2019 with full-year 2018, MAXIMA GRUPĖ's pro-forma revenue growth was 7.0%. Market growth in all operating countries was in the range of 4% to 6%. Like-for-like (LFL) revenue growth (pro-forma) was 3.4% and outperformed the 2018 figure of 1.6%.

The biggest growth was in Poland and Latvia, where revenue grew by 15.2% (pro-forma) and 7.7%, respectively. Market share in both countries also improved. In 2019 MAXIMA Latvija became the market leader in terms of market share (25.5%). Meanwhile, MAXIMA LT's revenue grew by 4.4% and MAXIMA Eesti showed modest growth of 0.9%, having been negatively impacted by competitors' rapid expansion. Revenue in Bulgaria grew by 12.6%, driven both by expansion and good existing-store LFL results.

LFL revenue in the Baltics grew by 2.9%, while non-Baltics LFL revenue growth was 4.7%

Sales of goods via e-commerce grew by 32.3% in the Baltics and accounted for 1.7% of total Baltics sales as e-grocery brand BARBORA continued operations in the largest Baltic cities and expanded to regional cities in Lithuania.

**2019 vs 2018**

**7.0%**
Consolidated revenue change (pro-forma)

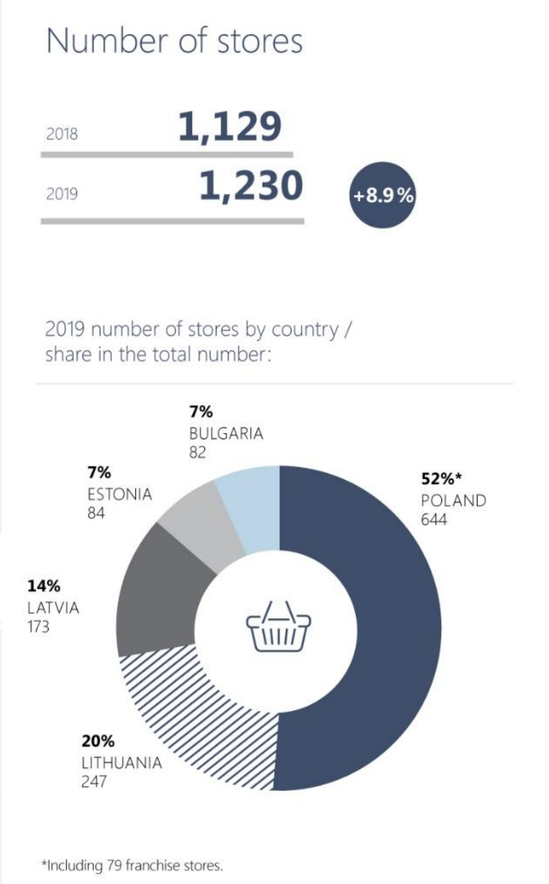
**3.4%**
Consolidated LFL revenue change

| | Total revenue change | LFL revenue change |
|---|---|---|
| MAXIMA GRUPĖ, consolidated (pro-forma) | 7.0% | 3.4% |
| Maxima LT | 4.4% | 4.3% |
| Maxima Latvija | 7.7% | 3.2% |
| Maxima Eesti | 0.9% | -1.5% |
| STOKROTKA* | 15.2% | 4.7% |
| MAXIMA Bulgaria | 12.6% | 4.7% |
| E-commerce (BARBORA) | 32.3% | n/a |

Like-for-like (LFL): same-store growth (not taking new or renovated stores into account)

*Stokrotka's revenue change for 2019 compared with full 2018 (pro-forma) in local currency

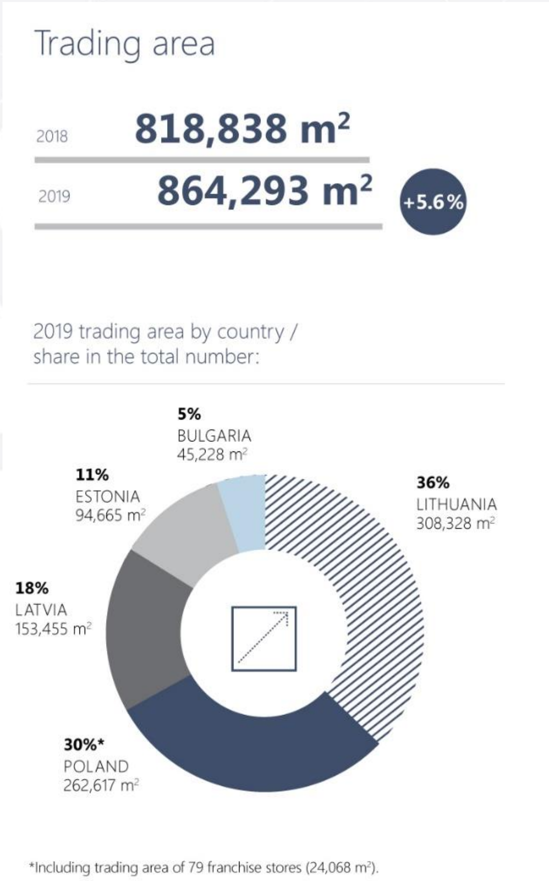
MAXIMA GRUPĖ's EBITDA (excl. IFRS16 impact) for 2019 rose to 234.5 m EUR (up by 4.9% from 223.6 m EUR in 2018). EBITDA (excl. IFRS16 impact) growth was mainly due to improved results at MAXIMA Latvija and STOKROTKA, though, on the other hand profitability decreased due to weaker results in Lithuania and Estonia. EBITDA (excl. IFRS16 impact) margin decreased from 6.5% in 2018 to 5.9% in 2019.




The Group's 2019 EBITDA with the IFRS16 impact was 333.4 m EUR.

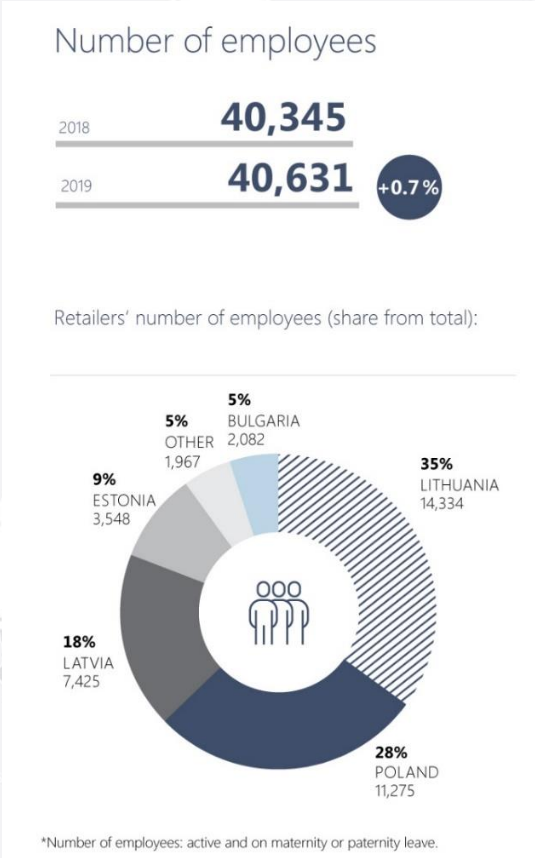
At the end of 2019 intra-group franchise services provided by FRANMAX were terminated and related intellectual property was transferred to retail operators. This change had no impact on consolidated Group's EBITDA for 2019 and will not have any impact on the consolidated Group's results in the future, but will positively impact EBITDA of retail operators in the Baltics and Bulgaria in the coming years as no franchise fee will be charged to them.

Net debt excluding the impact of IFRS16 was 325.1 m EUR on the reporting date, compared with 351.2 m EUR at 31 December 2018. The Group's financial leverage improved as the net debt/EBITDA (excl. IFRS16 impact) ratio of 1.39x was down from 1.57x in 2018. Net debt after adoption of IFRS16 was 1 011.7 m EUR, for a net debt/EBITDA ratio of 3.0x.




In 2019, MAXIMA GRUPĖ's companies invested 131.3 m EUR in fixed assets, up 49% from 88.1 m EUR in 2018. The investments mainly went to new stores (~60% of total investments), of which 101 were opened during 2019, including 74 in Poland under the STOKROTKA brand. The size of the network grew to 1,230 stores (644 in Poland), up from 1,129 in 2018. During 2019, 36 existing stores were reconstructed (20 in the Baltic countries), including major reconstruction of the largest MAXIMA store in Lithuania (10,000 sq. m.). The Group also continued its investments in strategic projects, such as increasing the number of self-service checkouts (57% of Baltic stores had them at the end of 2019), the use of electronic price labels and other initiatives.

At the end 2019, MAXIMA GRUPĖ had more than 40,600 employees, a slight increase of 0.7% as compared to more than 40,300 at the end of 2018.



# Lithuania

In 2019, MAXIMA LT's revenue grew by 4.4%, with LFL revenue up by 4.3% and market share at 33.3% in Lithuania. A slight decrease in market share versus the previous year was mainly due to the closure for reconstruction of MAXIMA LT's largest store at the Vilnius Akropolis mall, as well as to a relatively slow pace of expansion. Market size increased by 5.9% from the previous year.

In 2019, MAXIMA LT's EBITDA (excl. IFRS16 impact) was 79.9 m EUR, slightly down from 83.1 m EUR in the previous year. The poorer results were mainly due to discounts on industrial goods and Lithuanian-made products (the "Lietuva, ačiū!" campaign), with those factors having a negative impact of about 10 m EUR. Despite lower results for 2019 as a whole, in the second half of the year EBITDA (excl. IFRS16 impact) grew by 4.7 m EUR (or 10%) versus the same period of 2018.

| | | | |
|---|---|---|---|
| REVENUE CHANGE | +4.4% | RETAIL MARKET GROWTH | +5.9% |
| LFL REVENUE CHANGE | +4.3% | EBITDA (EXCL. IFRS16 IMPACT) | 79.9 M EUR |
| MARKET SHARE | 33.3% | EBITDA | 142.5 M EUR |

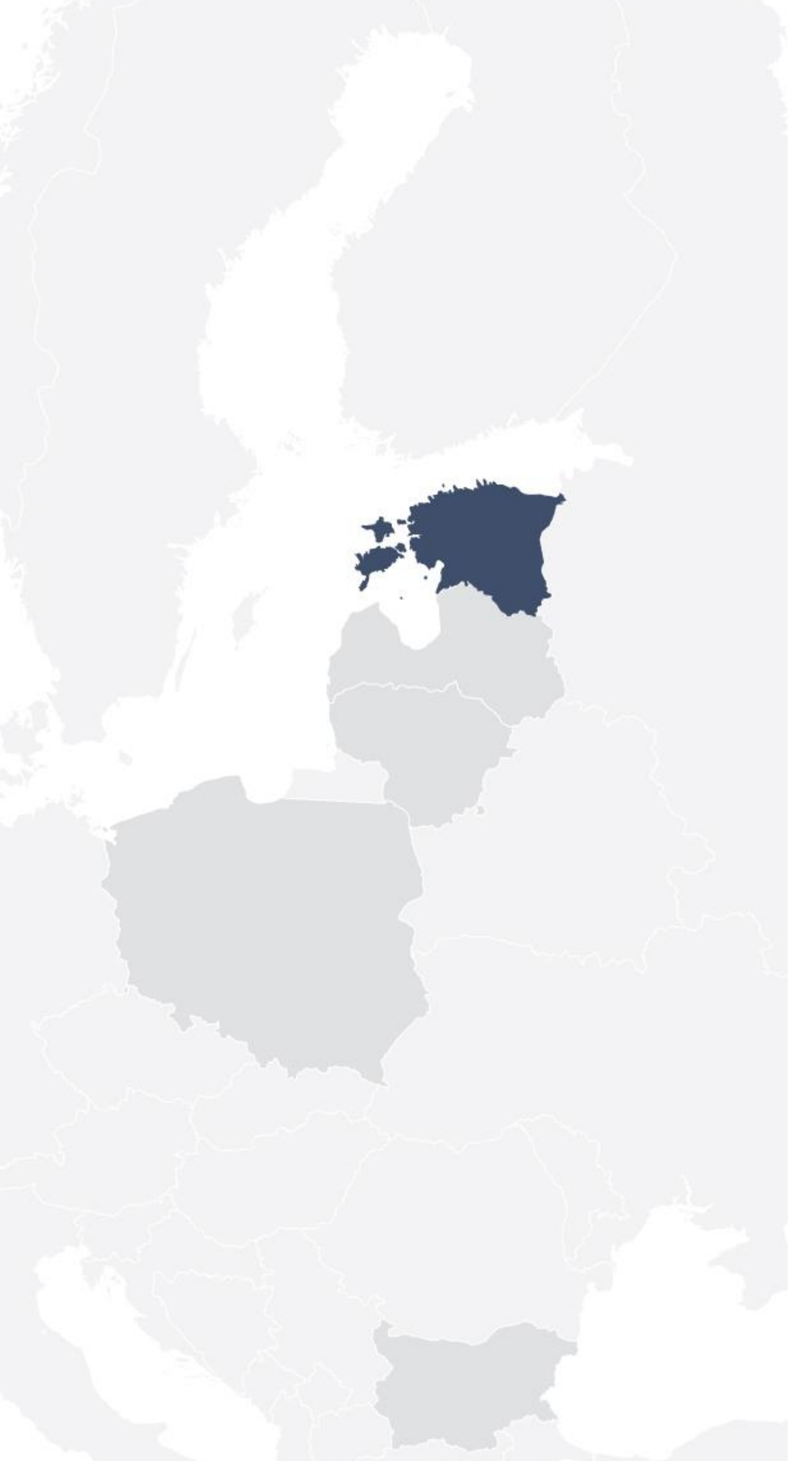
# Latvia

MAXIMA Latvija continued its expansion in 2019, as total revenue grew by 7.7% and LFL revenue by 3.2%. That gave it a market share of 25.5% and the position of market leader in Latvia. The size of the Latvian market increased by 4.6%, which was the slowest pace in the Baltic states.

MAXIMA Latvija's 2019 EBITDA (excl. the IFRS16 impact) was 38.5 m EUR, up from 33.0 m EUR a year before. EBITDA growth was driven by the increase in revenue coupled with improvement in gross profitability, which came from more efficient purchasing and favourable retail market conditions. Those factors offset rising electricity prices and store maintenance costs, leading to an increased EBITDA (excl. the IFRS16 impact) margin of 4.6% (up from 4.2% in 2018).

| | | | |
|---|---|---|---|
| REVENUE CHANGE | +7.7% | RETAIL MARKET GROWTH | +4.6% |
| LFL REVENUE CHANGE | +3.2% | EBITDA (EXCL. IFRS16 IMPACT) | 38.5 M EUR |
| MARKET SHARE | 25.5% | EBITDA | 61.5 M EUR |

# Estonia



In 2019, MAXIMA Eesti revenue increased by 0.9%, while LFL revenue decreased by 1.5%, mainly due to faster expansion by competitors. Amid rapid market growth of 5.8%, the company's market share decreased to 17%, from 17.8% in 2018.

MAXIMA Eesti's EBITDA (excl. IFRS16 impact) decreased to 4.5 m EUR compared to 11.7 m EUR in previous year. The decrease was driven by lower gross profitability levels, mainly due to the competitive environment and increased stock write-offs in stores. Another factor in the drop was pressure on operating expenses, especially personnel costs, rent and transportation expenses.

| | | | |
|---|---|---|---|
| REVENUE CHANGE | +0.9% | RETAIL MARKET GROWTH | 5.8% |
| LFL REVENUE CHANGE | -1.5% | EBITDA (EXCL. IFRS16 IMPACT) | 4.5 m EUR |
| MARKET SHARE | 17% | EBITDA | 22.4 m EUR |

# Poland

Rapid expansion in the Polish market continued. STOKROTKA's pro-forma year-on-year local-currency revenue growth in 2019 was 15.2%. Despite an expanded Sunday trade ban, Polish market growth remained high at 5.6%, and STOKROTKA had good LFL local-currency revenue growth of 4.7%. All growth was from small proximity stores where trading area was approx. 560 sq. m.

After a year of integration and related costs (which in 2018 had a negative impact of 2.5 m EUR), in 2019 STOKROTKA generated EBITDA (excl. IFRS16 impact) of 12.9 m EUR, versus 3.1 m EUR in 2018. EBITDA growth was driven by both rising revenue and improved profitability, with the EBITDA (excl. IFRS16 impact) margin up by 0.9 percentage points, from 0.6% to 1.5%.

| | | | |
|---|---|---|---|
| REVENUE CHANGE | +77.0% | RETAIL MARKET GROWTH | +5.6% |
| REVENUE CHANGE (PRO-FORMA) | +15.2% | EBITDA (EXCL. IFRS16 IMPACT) | 12.9 M EUR |
| LFL REVENUE CHANGE | +4.7*% | EBITDA | 55.4 M EUR |

*calculated in local currency

# Bulgaria

T-MARKET continued expanding in the Bulgarian market, where it opened 8 new stores in 2019 and had revenue growth of 12.6%. LFL revenue increased by 4.7%, despite relatively slow market growth of 3.7%. T-MARKET's EBITDA (excl. IFRS16 impact) decreased to 0.6 m EUR in 2019 from 0.8 m EUR in the previous year. While increasing economies of scale made higher gross profitability possible, increased stock write-offs in stores paired with increased salaries and costs. In addition, renovation and rebranding of former Triumf stores for which long term lease contracts were signed led to the decrease in EBITDA.

| | | | |
|---|---|---|---|
| REVENUE CHANGE | +12.6% | EBITDA (EXCL. IFRS16 IMPACT) | 0.6 M EUR |
| LFL REVENUE CHANGE | +4.7%* | EBITDA | 5.6 M EUR |
| RETAIL MARKET GROWTH | +3.7% | | |

*calculated in local currency

# E-Commerce

MAXIMA GRUPĖ operates e-commerce in Baltic countries under BARBORA brand. During 2019 BARBORA maintained its leading position in e-commerce in the region, as sales of goods via e-commerce amounted to 50 m EUR, up by 32.3% from previous year. E-commerce revenue in the Baltics accounted for 1.7% of total Baltics sales, as BARBORA continued operations in the largest Baltic cities and expanded to regional cities in Lithuania. Also, pickup service was introduced in Lithuania and Latvia.

BARBORA continues to improve shopping experience for its clients. Few of the examples include one-click recipes that combine all the ingredients needed to make a meal, enhanced delivery hours to meet customers' demand, grocery lockers and drive-in, where customers are able to pass by a store and pick up their already-selected groceries.

## Adoption of IFRS16 Leases

On 1 January 2019, MAXIMA GRUPĖ adopted a new International Financial Reporting Standard (IFRS) 16 *Leases*, which changed the treatment of leased assets in the consolidated financial statements. In applying the new standard, on its statement of financial position MAXIMA GRUPĖ recognised assets and liabilities arising from future payments under operating lease agreements. Under the new standard, operating lease expenses are no longer recognised in the income statement. Instead, depreciation is calculated for the right-of-use assets (recognised for the leased property), and interest expenses on lease liabilities are recognised.

Due to the change of accounting principles for leased assets, MAXIMA GRUPĖ's EBITDA increased by 98.9 m EUR in 2019, while its net profit decreased by 9.4 m EUR. As of 31 December 2019, a total of 691.5 m EUR of right-of-use assets along with lease liabilities of 687.9 m EUR were recognised on MAXIMA GRUPĖ's consolidated statement of financial position.

## Plans and forecasts

The Group follows the approved strategic objectives, formulated in the light of market trends, market share and the Group's long term goal to be appreciated choice for everyday.

In pursuit of its strategic goals, the Group implements various programs for improving organization and increasing the efficiency of activities. The programs include optimizing the supply chain, increasing investment efficiency, integrating and centralizing operations management, developing private labels, updating human resources management policies and tools.

In order to ensure consistent annual planning of activities, strategic goals and incentive programs related to their achievement are reviewed annually and updated, if needed. The Group evaluates achieved results, the current market situation and the emergence of new business development opportunities.

In the foreseeable future the Group plans to maintain its current leading position in the Baltic states market and explore different expansion opportunities, mainly in Poland and Bulgaria.

# GOVERNANCE

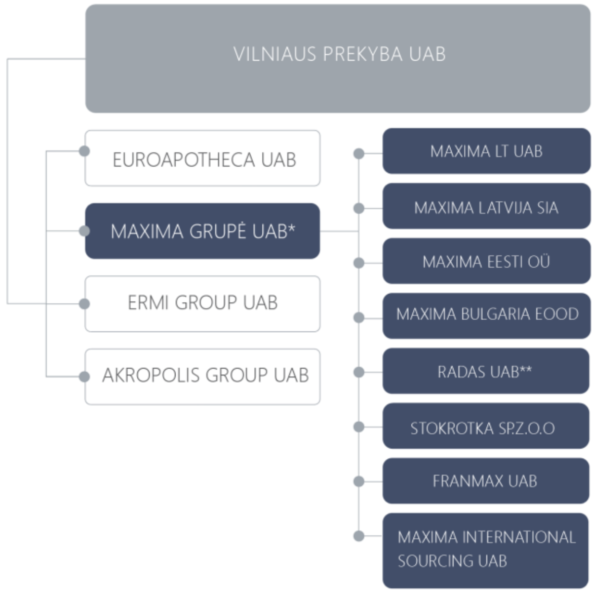
**MAXIMA GRUPĖ** is the largest Lithuanian-owned group of retail companies in the Baltic states.

**VILNIAUS PREKYBA** is an international company which manages investments in diversified activities and, through other subsidiary companies, manages investments in retail and pharmacy chains as well as real estate development and leasing service companies in the Baltic countries, Sweden, Poland and Bulgaria.

## Corporate Governance

Transparent and effective corporate governance that keeps up with international best practices is the basis for the success and sustainability of the Group's activities.

## STRUCTURE OF VILNIAUS PREKYBA GROUP (MATERIAL SUBSIDIARIES)




* Lists the MAXIMA GRUPĖ companies engaged in retail trade and related activities.
** RADAS UAB manages e-commerce business in Lithuania, Latvia and Estonia under BARBORA brand.

## THREE-TIER MANAGEMENT SYSTEM:


One-person executive management body that manages the company's day-to-day operations and represents the company in its dealings with third parties.

Responsible for the strategic management and adopts decisions on approval of the core transactions to be concluded by the company

Oversees the activities of the Board of Directors and the CEO

# BOARD OF DIRECTORS

The Board of Directors is a collegial management body which, according to the Articles of Association, consists of 8 members (of which currently 7 members are elected) elected for a term of 4 years. Members of the Board are elected and removed by the Company's Supervisory Board. The Board elects the chairman from among its members.

The main functions of the Board are the following: adoption of the strategic decisions of the Company, appointment and removal of the CEO, calling general meetings of the shareholders, approval of certain transactions and decisions of the CEO, and adoption of other corporate decisions within its competence. The competence of the Board is the same as prescribed by the Law on Companies of the Republic of Lithuania, except that the Board adopts decisions to issue bonds.

## AS OF THIS REPORT'S DATE OF SIGNING, THE BOARD OF DIRECTORS COMPRISED THE FOLLOWING MEMBERS:

JOLANTA BIVAINYTĖ
CHAIRWOMAN
SINCE 6 APR 2020
ALSO 19 DEC 2019 – 13 MAR 2020
BOARD MEMBER SINCE 8 MAY 2019

CEO AND CHAIRWOMAN OF THE BOARD OF MAXIMA LT, UAB

JURGITA ŠLEKYTĖ
BOARD MEMBER
SINCE 6 APR 2020
ALSO 1 AUG 2019 - 13 MAR 2020

CEO AT MAXIMA GRUPĖ, UAB
CEO AT FRANMAX, UAB

ARŪNAS ZIMNICKAS
BOARD MEMBER

PRESIDENT OF THE MANAGEMENT BOARD OF STOKROTKA SP.Z.O.O.

VIKTORS TROICINS
BOARD MEMBER
SINCE 14 MAR 2020

CEO AT MAXIMA LATVIJA SIA

EDVINAS VOLKAS
BOARD MEMBER

CEO AT MAXIMA EESTI, OU

PETAR PETROV PAVLOV
BOARD MEMBER
SINCE 6 APR 2020

CEO AT
MAXIMA BULGARIA EOOD

VITALIJ RAKOVSKI
BOARD MEMBER
SINCE 9 DEC 2019

CFO AT MAXIMA GRUPĖ, UAB

*Full list of positions is provided in 'Other information

During the reporting period, the following people were members of the Board:

Dalius Misiūnas (Chairman), until 9 Apr 2019
Tomas Kibildis, until 8 May 2019
Kristina Meidė, until 13 Mar 2020
Justas Riauba (Chairman), 9 Apr - 8 May 2019
Mantas Kuncaitis, 9 Apr - 8 May 2019
Meri Navickė (Chairwoman), 15 Apr - 9 Dec 2019
Marko Poder, 8 May 2019 - 15 Jul 2019
Vilma Drulienė, 9 Dec 2019 - 13 Mar 2020
Andris Vilcmeiers, until 6 Apr 2020, as Chairman 14 Mar - 6 Apr 2020

# SUPERVISORY BOARD

The Supervisory Board is a collegial supervisory body, which is responsible for supervising the activities of the Company and its management bodies, including the appointment and removal of the members of the Board. It also submits its comments and proposals to the General Meeting of Shareholders on the Company's business strategy, financial statements and other reports on the activities of the Board of Directors and the CEO.

All members of the Supervisory Board are elected by the General Meeting for a term of 4 years. The Chairman of the Supervisory Board is elected from the members of the Supervisory Board. There is no limitation on the number of terms of office a member of the Supervisory Board may serve.

In 2019 all elected members of the Supervisory Board participated in each of the meetings. The main matters discussed during the meetings included:

- Appointments of Board members;
- Assessment of the Company's annual financial statements, the consolidated annual financial statements of the Company and its subsidiaries, and its submission of proposals to the sole shareholder of the Company;
- Evaluation of the selection of the auditor of the Company and proposals to the sole shareholder of the Company regarding the candidacy of the auditor.

## AS OF THIS REPORT'S DATE OF SIGNING, THE SUPERVISORY BOARD COMPRISED THE FOLLOWING MEMBERS:

EVELINA ČERNIENĖ
CHAIRWOMAN
SINCE 10 JUN 2019

CFO AND BOARD MEMBER AT VILNIAUS PREKYBA, UAB

IGNAS STAŠKEVIČIUS
MEMBER

HEAD OF LITHUANIA DIVISION AT BERTONA HOLDINGS LIMITED

MANTAS KUNCAITIS
MEMBER
SINCE 9 APR 2019

CEO AND CHAIRMAN OF VILNIAUS PREKYBA, UAB

During the reporting period, the following people were members of the Supervisory Board:
Jolanta Bivainytė, until 8 May 2019; Jurgita Šlekytė, until 31 Jul 2019; Raimonda Kižienė, until 6 Nov 2019.

# Audit Committee

MAXIMA GRUPĖ's Audit Committee helps the Supervisory Board ensure that the process for auditing the Company's financial statements is effective and reliable. Its main functions are: oversight of the processes for preparing and auditing annual financial statements, review and monitoring of the independence of the external auditor, and monitoring of internal control and internal audit at the Company.

As of this report's date of signing, the Audit Committee comprised the following members: Irena Petruškevičienė (Chairwoman of the committee and an independent member), Rasa Milašiūnienė (an independent member) and Rytis Jezepčikas (a former Vilniaus Prekyba board member).

On 15 October 2019, Rasa Milašiūnienė replaced Jurgita Kirvaitienė as a member of the Audit Committee. On 1 February 2019, Irena Petruškevičienė replaced Kasparas Žebrauskas in the role of Chairwoman of the Audit Committee.

## The Audit Committee held 11 meetings during 2019. Its activities covered these areas:

- Review of the activities and organisational structure of the Company and its subsidiaries;
- Review of the organisation of internal audit activities as well as the internal audit programme of work and completed work;
- Monitoring of financial statement preparation processes;
- Consideration of candidacies to be the auditors of group companies;
- Consideration of the size of remuneration of the Company's external auditor for financial statement audit services,
- Review of the independent auditor's programme of work and monitoring of the financial statement audit process performed by the independent auditor;
- Monitoring of the nature and scale of non-financial reporting audit services and approval of the acquisition of specific non-financial reporting audit services from the Company's auditor.

### About the Audit Committee members:

Irena Petruškevičienė, the Chairwoman of the committee and an independent member, has more than 25 years of experience in the area of auditing. She worked for 10 years at the audit and consulting company PwC and served for 6 years as a member of the European Court of Auditors. She has also been a member of the audit committee of the European Commission and UN World Food Programme.

Rasa Milašiūnienė is the finance director at Western Union Processing Lithuania, UAB. Before that, she served for 9 years as head of the operations unit at Western Union Business Solutions. She also has 8 years of experience as head of internal audit at the telecommunications company Omnitel (now Telia Lietuva AB). She is a Certified Internal Auditor (CIA).

Rytis Jezepčikas is a board member at Mieszko S.A. (Poland) and a former Vilniaus Prekyba board member with more than 10 years of experience as a financial executive. He previously worked in the Audit Department at the consulting company Ernst & Young.

MAXIMA GRUPĖ also has an Internal Audit Department which reports to the CEO, the Management Board and the Audit Committee on a periodical basis. The internal audit team provides assurance on the effectiveness of internal controls system, governance, compliance with corporate policies, efficiency of processes and other risk management activities. It is responsible for auditing group companies and providing recommendations for possible improvements as well as tracking implementation of action plans after audits.

# Risk Management

### Control framework

Like any business, we face different types of risks that might cause unexpected situations in our companies. In order to operate successfully, we strive to foresee and react to such risks rapidly, so that they do not interfere with our primary goals, outlined in our strategy. We seek to promote a work culture that takes a proactive approach to risk management and lets us meet our stakeholders' expectations.

### Appetite for significant risks

We identify three principal risk categories. For each risk, MAXIMA GRUPĖ takes specific measures to manage the underlying causes and minimize potential consequences. The key risk drivers and measures for their mitigation are detailed below for financial, business and compliance risks.

| | Risk | Key risk drivers | Mitigation |
|---|---|---|---|
| Financial risks | Credit risk | - Cash and cash equivalents<br>- Trade and other receivables | - Monitoring the creditworthiness of debtors by using controls that include credit approvals, limits, prepayment requirements and other monitoring procedures<br>- Exposure spread over a number of counterparties and customers<br>- Funds in banks not concentrated because the counterparties are a large number of banks, or their subsidiaries, with investment grade ratings assigned by international credit-ratings agencies<br>- Successful long-term cooperation supported by signed contracts where terms, conditions and the responsibilities of both parties are described |
| | Funding and liquidity risk | - Different maturity profiles of receivables and payables<br>- Liquidity surplus | - The ability to use undrawn committed borrowing facilities as an instrument of liquidity risk management<br>- Sufficient level of available cash and cash equivalents<br>- Arranging funding ahead of demand |

| | | |
|---|---|---|
| Foreign currency exchange rate | - Purchasing of goods in foreign currencies while income is mostly denominated in euro and other local currencies | - The Group uses derivative financial instruments ("forwards") to hedge its risks arising from foreign currency fluctuations |
| Interest rate | - Floating rate facilities | - Entering to borrowing contracts with fixed interest rate<br>- Application of derivative financial instruments |

BUSINESS RISKS

| | | |
|---|---|---|
| Strategy risk | - Revenue<br>- EBITDA | - Focus of management of the Group<br>- Business continuity strategic guidelines and tactical policy<br>- Business continuity management plans |
| Reputation risk | - Revenues | - Permanent improvement of internal control system<br>- Training employees and developing the corporate culture to make sure unethical behaviour is seen as unacceptable |
| Country risk | - Presence in countries with political, financial, social or economic instability | - The Group is present in different countries with different specific risks<br>- Knowledge and awareness of countries where the Group is present<br>- Monitoring, reviewing and reporting on changes of the political, financial, social or economic situation in countries' where the Group is present |
| Regulatory risk | - Revenue<br>- Environmental regulation | - The Group is present in different countries with different regulatory framework, which enables risks' diversification<br>- Knowledge and awareness of regulations in countries where the Group is present<br>- Monitoring, reviewing and reporting on changes of regulations in countries where the Group is present |
| Competitive environment and economic conditions risk | - Group's business<br>- Results of operations<br>- Financial condition | - Research and monitoring of consumer behaviour<br>- Analysis of economic development<br>- Price benchmarking of the competition<br>- Approved strategies<br>- Strengthening of own brands<br>- Developing a more personalized customer relationship<br>- Continuous improvement of the internal control system<br>- Managing the product mix and pricing policy<br>- Multi-format model to meet changing customer needs |
| Growth, expansion and lack of cost-efficient locations risks | - Number of stores<br>- Revenue<br>- Results of operations<br>- Financial condition | - Research and monitoring of separate regions<br>- Maintaining M&A and property management competencies<br>- Approved strategies<br>- Due diligence reviews |
| Risk related to information technologies performance, Data Security | - Revenue<br>- Operational costs | - Continuous improvement of the internal control system<br>- Engaging the best internal IT experts<br>- Using effective outsourcing practices with SLA and monitor compliance<br>- Ensuring sufficient reliability of centralised IT infrastructure |

| | | | |
|---|---|---|---|
| | and Data Privacy | | - Policies and procedures to ensure cybersecurity<br>- Information systems to detect atypical behaviour in the corporate network<br>- Special hardware and software for protection against malicious software, spam, external and internal cyberattacks, data leaks |
| | Retail operations, supply and inventory management risks | - Gross Profit<br>- Operation Cost<br>- Levels of service<br>- Financial position | - Optimal level of decentralisation for operational business processes and supply chain<br>- Logistics strategy for managing supply chains within the existing network<br>- Efficient management of inventory stocks<br>- Increased direct global sourcing as well as reduced shrinkage and efficiency improvements |
| | Human resources | - Labour costs<br>- Financial performance | - Monitoring the labour market and providing employee benefits in line with the market<br>-Processes ready for employee onboarding, training and development<br>- Developing the corporate culture |
| COMPLIANCE RISKS | Compliance with current legislation | - Internal governance and business process | - Continuous improvement of the internal control system<br>- Monitoring of draft laws, timely initiation of internal projects to prepare for legislative changes<br>- Legal support, audit of contracts, development and use of contract templates |
| | Product safety and liability risks | - Revenues<br>- Safety regulation | - Product safety policies<br>- Control standards for food and non-food products<br>- Standard operating procedures<br>- Monitoring of performance in the business<br>- Tracing of product origins and conditions of production<br>- Third-party certification<br>- Insurance programme<br>- Carrying out laboratory tests of product samples<br>- Complying with approved rules for product transportation, storage and sale<br>- Complying with sanitation rules<br>- Providing training for employees, including quality assurance |
| | Environment and sustainability risk | - Operations and reputation | - Reducing packaging<br>- Implementing new methods to increase energy efficiency across stores and warehouses<br>- Implementing methods to reduce waste throughout the whole value chain |
| | Occupational health and safety risk | Financial position, results of operations, reputation | - Safe and comfortable working environment<br>- Compliance with employees' working hours and holiday schedule<br>- Regular medical examinations and health screening for employees |

# OTHER INFORMATION

## INFORMATION ON SECURITIES

In September 2018, MAXIMA GRUPĖ successfully placed a 300 m EUR issue of 5-year bonds. The bonds were listed on the Euronext Dublin and Nasdaq Vilnius securities exchanges.

| Name | Nominal value | Issue value | ISIN code | Buy-out date |
|---|---|---|---|---|
| MAXIMA GRUPĖ, UAB | 100,000 EUR | 300 m EUR | XS1878323499 | 13 Aug 2023 |

Vilniaus prekyba, UAB is the only shareholder of the Company. Competencies of the General Meeting of Shareholders do not differ from those specified in the Law on Companies. There is only one shareholder that has the rights provided in the Law on Companies. There are no shareholders owning special rights. No voting rights limitations apply.

The Company does not have its shares (neither the parent company itself nor its subsidiaries have any shares in the Company). During the period, the Company did not purchase or dispose of its own shares.

## INFORMATION ABOUT MATERIAL SUBSIDIARIES

The Company does not have branches or representative offices. Information on material subsidiaries is disclosed in Note 1 of the consolidated financial statements of the Group.

## POSITIONS OF THE MEMBERS OF THE BOARD OF MAXIMA GRUPĖ, UAB

| Board member | Position | Legal Code | Address |
|---|---|---|---|
| Jolanta Bivainytė | CEO and Chairwomen of the Board of MAXIMA LT, UAB | 123033512 | Naugarduko str. 84, Vilnius, Lithuania |
| | Board member at MAXIMA GRUPĖ, UAB | 301066547 | Savanorių ave. 247, Vilnius, Lithuania |
| | Member of the Supervisory Board of EMPERIA HOLDING S.A. | 0000034566 | 02-566 Warszawa, ul. Puławska 2B, Poland |
| | Board member of STICHTING TRIVIALIS B.V. | 58595988 | Naritaweg 165, Telestone 8, 1043BW Amsterdam, the Netherlands |
| | Board member of STICHTING NOVITUS B.V. | 60599499 | Naritaweg 165, Telestone 8, 1043BW Amsterdam, the Netherlands |
| | Experience<br>1992-2020 // Diverse management positions at UAB Vilniaus prekyba and related companies | | |
| | Education<br>Finance, Vilnius University | | |
| Jurgita Šlekytė | CEO and Board member at MAXIMA GRUPĖ, UAB | 301066547 | Savanorių ave. 247, Vilnius, Lithuania |
| | CEO at FRANMAX, UAB | 302670810 | Savanorių ave. 247, Vilnius, Lithuania |
| | Board member of MAXIMA LT, UAB | 123033512 | Naugarduko str. 84, Vilnius, Lithuania |
| | Experience<br>2008-2020 // Diverse management positions at UAB Vilniaus prekyba, MAXIMA GRUPĖ, UAB and FRANMAX, UAB | | |
| | Education<br>Law, Vilnius University; Business Management, Baltic Management Institute | | |
| Arūnas Zimnickas | President of the Management Board of EMPERIA HOLDING S.A. | 0000034566 | 02-566 Warszawa, ul. Puławska 2B, Poland |
| | President of the Management Board of Stokrotka Sp. z o.o. | 0000016977 | 20-209 Lublin, ul. Projektowa 1, Poland |
| | Chairman of the Supervisory Board at Elpro Development S.A. | 0000509157 | 02-566 Warszawa, ul. Puławska 2B, Poland |
| | Management Board member at Eldorado Sp. z o.o. | 0000400637 | 20-209 Lublin, ul. Projektowa 1, Poland |
| | Board member at MAXIMA GRUPĖ, UAB | 301066547 | Savanorių ave. 247, Vilnius, Lithuania |
| | Experience<br>2008-2018 // CEO of MAXIMA GRUPĖ, UAB and related companies | | |
| | Education<br>Economics and International Business, Vilnius University | | |

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|---|---|---|---|
| Edvinas Volkas | CEO at MAXIMA Eesti, OU | 10765896 | Aiandi tn 13/2, Mustamäe linnaosa, Tallinn, Estonia |
| | Board member at MAXIMA GRUPĖ, UAB | 301066547 | Savanorių ave. 247, Vilnius, Lithuania |
| | Experience<br>2001-2019 // Diverse management positions at the companies of MAXIMA GRUPĖ, UAB | | |
| | Education<br>Business administration, International Business School of Vilnius University | | |
| Viktors Troicins | CEO at MAXIMA Latvija, SIA | 40003520643 | Maskavas str. 257, Riga, Latvia |
| | Board member at MAXIMA GRUPĖ, UAB | 301066547 | Savanorių ave. 247, Vilnius, Lithuania |
| | Experience<br>2016-2019 // Board member and CCO of MAXIMA Latvija SIA | | |
| | Education<br>Economics, Riga Aviation University<br>Business Administration, Stockholm School of Economics in Riga<br>Baltic Institute of Corporate Governance, Board Member Certification | | |
| Petar Petrov Pavlov | CEO at MAXIMA Bulgaria EOOD | 131324923 | Botevgradsko Shose blvd. 247, Poduyane Distr., fl. 2, Sofia, Bulgaria |
| | CEO at DEVELOPER BULGARIA" EOOD | 200369978 | Botevgradsko Shose blvd. 247, Poduyane Distr., fl. 2, Sofia, Bulgaria |
| | CEO at MMS PROJECTS EOOD | 175363447 | Botevgradsko Shose blvd. 247, Poduyane Distr., fl.2, Sofia, Bulgaria |
| | CEO at DC BG EOOD | 200713219 | Botevgradsko Shose blvd. 247, Poduyane Distr., fl. 2, Sofia, Bulgaria |
| | CEO at MA Bulgaria EOOD | 204882743 | Botevgradsko Shose blvd. 247, Poduyane Distr., fl. 2, Sofia, Bulgaria |
| | Experience<br>2005-2019 // Diverse management positions MAXIMA Bulgaria EOOD | | |
| | Education<br>Law, Sofia University St. Kliment Ohridski | | |

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|---|---|---|---|
| Vitalij Rakovski | CFO at MAXIMA GRUPĖ, UAB | 301066547 | Savanorių ave. 247, Vilnius, Lithuania |
| | Board member at Radas, UAB | 303053737 | Ozo str. 25, Vilnius, Lithuania |
| | Member of the Supervisory Board of EMPERIA HOLDING S.A. | 0000034566 | 02-566 Warszawa, ul. Puławska 2B, Poland |
| | Board member at MAXIMA GRUPĖ, UAB | 301066547 | Savanorių ave. 247, Vilnius, Lithuania |
| | Experience<br>2008-2018 // Senior and managerial positions in finance and M&A areas at diverse companies | | |
| | Education<br>Business Administration and Management, Vilnius University | | |

## POSITIONS OF THE MEMBERS OF THE SUPERVISORY BOARD

| Member of Supervisory Board | Position | Legal Code | Address |
|---|---|---|---|
| Evelina Černienė (Chairwomen) | CFO and Member of the Board at Vilniaus Prekyba, UAB | 302608755 | Ozo str. 25, Vilnius, Lithuania |
| | Chairwomen at Sollo, UAB | 302575294 | Savanorių ave. 247, Vilnius, Lithuania |
| | CEO at NVP PROJEKTAI, UAB | 302642871 | Savanorių ave. 247, Vilnius, Lithuania |
| | Experience<br>Experience in financial management at diverse companies, audit firm | | |
| | Education<br>Commercial Quality Management, Vilnius University | | |
| Ignas Staškevičius | Head of Lithuanian division of Bertona Holdings Limited | HE 247717 | Nicolaou Pentadromos Centre, Corner A. Zonis /Thessalonikis g., 3026 Limasolis, Cyprus |
| | Member of the Board at PADME INVEST, UAB | 302426311 | Odminių str. 8, Vilnius, Lithuania |
| | Member of the Board at Tarptautinis maratonas, VŠĮ | 300561278 | Odminių str. 8, Vilnius, Lithuania |
| | Member of the Board at Open books VŠĮ | 305186608 | Odminių str. 8, Vilnius, Lithuania |
| | Experience<br>Administrative and management experience at diverse companies | | |
| | Education<br>Medicine, Vilnius University | | |

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|---|---|---|---|
| Mantas Kuncaitis | CEO and Chairman of the Board at Vilniaus prekyba, UAB | 302608755 | Ozo str.. 25, Vilnius, Lithuania |
| | Vingio turtas, UAB | 302533174 | Ozo str. 25, Vilnius, Lithuania |
| | Member of the Board at AKROPOLIS REAL ESTATE B.V. | 34297777 | Claude Debussylaan 7, 1082MC Amsterdam, the Netherlands |
| | Member of the Board at Akropole Riga, SIA | 40003768247 | Maskavas iela 257B, Ryga, Latvia |
| | Member of the Board at M257, SIA | 40003698645 | Maskavas iela 257B, Ryga, Latvia |
| | Member of the Board at Sollo, UAB | 302575294 | Savanorių ave. 247, Vilnius, Lithuania |
| | Chairman of the Board at Vilniaus Prekyba foundation DABAR | 125786380 | Ozo str. 25, Vilnius, Lithuania |
| | Member of the Board at EUROAPOTHECA, UAB | 300854822 | Ozo str. 25, Vilnius, Lithuania |
| | CEO and Chairman at AKROPOLIS GROUP, UAB | 302533135 | Ozo str. 25, Vilnius, Lithuania |

**Experience**

Legal work, administrative and management experience at diverse companies

**Education**

Law, University of Greenwich

European Political Economy, King's College London

CISI Level 3 Award in Global Financial Compliance; Chartered Institute for Securities & Investments London

## INFORMATION ON NON-AUDIT SERVICES

In 2019 remuneration to the Group's auditors for non-audit services amounted to 51 thousand EUR.

Consolidated annual report has been approved and signed on 8 April 2020

Jurgita Šlekytė

Chief Executive Officer

# *MAXIMA* GRUPĖ, UAB

**Consolidated financial statements**
**for the year ended 31 December 2019**
**together with independent auditor's report**

# CONTENTS

# Independent auditor's report

To the shareholder of MAXIMA GRUPĖ, UAB

## Report on the audit of the consolidated financial statements

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MAXIMA GRUPĖ, UAB ("the Company") and its subsidiaries (together "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 8 April 2020.

**What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

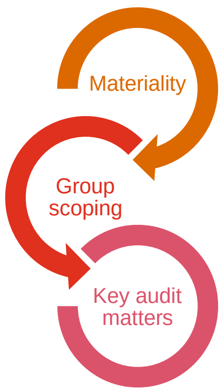
**Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the consolidated financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements. The non-audit services that we have provided to the Group, in the period from 1 January 2019 to 31 December 2019 are disclosed in Consolidated Annual Report section *Information on non-audit services*.

## Our audit approach

**Overview**




- Overall Group materiality: EUR 10,000 thousand

- We conducted audit work at 10 reporting units, located in Bulgaria, Estonia, Latvia, Lithuania and Poland.
- Our audit addressed 87% of the Group's total assets and 98% of the Group's total revenues.

- Goodwill impairment assessment
- Property, plant and equipment impairment assessment
- Completeness and accuracy of lease agreements and adoption of IFRS 16

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

| | |
|---|---|
| **Overall Group materiality** | EUR 10,000 thousand |
| **How we determined it** | 0,25% of Group's total revenues |
| **Rationale for the materiality benchmark applied** | We chose total revenues as the benchmark because total revenues are one of the Group's key performance indicators analysed by the management and communicated to the shareholder and, in our view, it is an appropriate measure of the size of the Group. Total revenues are also a more stable measure compared to profitability ratio. |

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| | We chose the threshold of 0,25%, which is within the range of acceptable quantitative materiality thresholds for this benchmark. |

We informed the Audit Committee that we would report to them misstatements identified during our audit above EUR 500 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Goodwill impairment assessment<br><br>*Refer to accounting policy on impairment testing in note 2.5, accounting estimates and assessments in note 3.2 and note 9 ,,Goodwill".*<br><br>The Group has a goodwill balance of EUR 212,178 thousand as at 31 December 2019.<br><br>The goodwill has to be tested for an impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs of disposal, requires judgment from management when identifying and valuing the relevant cash-generating units.<br><br>Recoverable amounts are based on the cash flow forecasts that include management's estimate of key value driver inputs and external market conditions such as inflation, revenue growth and competition, capital expenditures and discount rates applied.<br><br>No impairment was recognized in the current period as the recoverable amount was higher than the carrying amount.<br><br>We focused on this area due to the significance of the goodwill balance and because the impairment assessment involved significant management's judgements about future results and the discount rates applied to future cash flows forecasts. | We obtained an understanding of management's process over the impairment assessment. We evaluated management's identification of the Group's cash-generating units.<br><br>Our audit procedures also included challenging management on the appropriateness of the impairment models and the reasonableness of the assumptions used by performing the following:<br><br>- Assessing the reliability of the cash flow forecast by checking the actual past performance and comparing to previous forecasts and by inspecting internal documents, such as budget forecasts for 2020–2024;<br><br>- Benchmarking market related assumptions like discount rate and long-term growth rate against external data. Where it was considered necessary, we involved our valuation experts;<br><br>- Testing the mathematical accuracy of the model and assessing the sensitivity of the impairment test to key inputs.<br><br>Finally, we have reviewed the adequacy of the Group's disclosures in the consolidated financial statements. |
| Property, plant and equipment impairment assessment<br><br>*Refer to accounting policy on impairment testing in note 2.9, accounting estimates and* | We obtained understanding of management's procedures in relation to the impairment assessment of the property, plant and equipment. |

| | |
|---|---|
| *assessments in note 3.2 and note 5 ,,Property, plant and equipment".*<br><br>Property, plant and equipment (PPE) amounted to EUR 700,698 thousand that represents around 29% of the total assets in the consolidated statement of financial position of the Group as at 31 December 2019.<br><br>The Group has assesed if impairment indicators for property, plant and equipment existed as at 31 December 2019.<br><br>The Group performed an annual impairment test of the assets, where impairment indicators were identified as at 31 December 2019, based on the recoverable amount estimations of the Group's cash-generating units (individual store). The annual impairment test involves management judgment regarding the assumptions used in the underlying cash flows forecasts that include management's estimate of key value driver inputs and external market conditions such as inflation, revenue growth and competition, capital expenditures and discount rates applied.<br><br>The additional impairment charge of EUR 1,568 thousand and reversal of impairment charge of EUR 4,703 thousand was recognised in 2019 for property, plant and equipment.<br><br>Based on these, we considered it to be a key audit matter. | Among other procedures, we involved a valuation specialist to assist us with the review of the impairment model structure and composition as well as the discount rates used by the management in the impairment test.<br><br>-We also considered key assumptions used by the management in the estimation of cash flows forecasts, including the expected trend in revenue, costs, level of capital expenditure by comparing them to historical performance levels and management's expectations of their development in the future.<br><br>-We tested the sensitivity in the available headroom of the impairment test by considering if a reasonably possible change in assumptions could cause the carrying amount of cash generating unit to exceed its recoverable amount.<br><br>-We have also assessed the historical accuracy of the management's forecasts.<br><br>Finally, we have reviewed the adequacy of the Group's disclosures in the consolidated financial statements about the assumptions used in the impairment test and the outcome of the test. |
| **Completeness and accuracy of lease agreements and adoption of IFRS 16**<br><br>*Refer to accounting policy on lease liabilities and subleases in note 2.19, accounting estimates and assessments in note 3.1 and note 6 ,,Leases" and note 31 ,,Adoption of IFRS16 Leases" .*<br><br>The Group has adopted IFRS 16 as at 1 January 2019, applying the modified retrospective method. The Group has accounted for a right- of-use assets of EUR 691,458 thousand, a net investment in the lease of EUR 13,077 thousand and lease liabilities of EUR 687,895 thousand as at 31 December 2019.<br><br>The assessment of the impact of the adoption of IFRS 16 standard is significant to our audit, as the balances recorded were material, the update of the accounting policy required policy choice, the implementation process to identify | Our audit procedures included an evaluation of management implementation process, including the review of the updated accounting policy and policy elections, the completeness and accuracy of the lease contracts identified and recorded in the lease accounting system and calculation of the right-of-use assets and lease liability:<br><br>- For the sample of lease agreements we have checked whether the accounting treatment of leases is consistent with the definitions of IFRS 16 including factors such as lease term, discount rate and measurement principles;<br><br>- We have checked the modified retrospective application and assessed whether this is consistent with the definition and expedients of IFRS 16; |

| | |
|---|---|
| and process all relevant data associated with the leases (including IT software and controls) was complex and the measurement of the right-of-use asset and lease liability was based on assumptions such as discount rates and the lease terms, including termination and renewal options. | -We challenged management assumptions, specifically on the assumptions used to determine the discount rates, the application of a single discount rate for a portfolio of leases and the assessment of extension options;<br>-We performed independent testing on a sample basis of the accuracy of the lease contracts input in the lease accounting system and completeness of the identified lease contracts;<br>-We recalculated on a sample basis the right-of-use asset and lease liability for selected lease contracts;<br>- We recalculated for the same sample lease payments, interest and amortisation expenses recognised during the period;<br>- We also tested a sample of new contracts to check the book value of the right of use assets recognised during the financial year.<br>We assessed the adequacy of the Group's disclosures of the impact of the new standard in note 31 to the consolidated financial statements.<br>We also read the disclosures in the consolidated financial statements regarding right-of-use assets and lease liabilities. |

**How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries operating in Bulgaria, Estonia, Latvia, Lithuania and Poland (refer to Note 1 of the consolidated financial statements). A full-scope audit was performed by us or based on our instructions by PwC entities represented in the following countries: Bulgaria, Estonia, Latvia and Poland for the financial information of the following Group entities:

- Maxima Bulgaria EOOD;
- Maxima Eesti OU;
- Maxima Latvia SIA;
- Maxima Grupe UAB;
- Maxima LT;
- Franmax UAB;
- Maxima International Sourcing UAB;
- Elpro Development S.A.;
- Emperia Holding S.A.;
- Stokrotka Sp.z.o.o.

For real estate entities of the Group, the Group engagement team carried out audit work on the selected balances and transactions, which were assessed by us as material from the Group audit perspective. For the remaining components we performed analytical review at the Group level. This together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

## Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report, including the corporate governance report and the social responsibility report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the consolidated annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings.

The Group presented the social responsibility report as part of the consolidated annual report.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, 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 opinion. 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 internal control relevant to the 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. 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 the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

**Appointment**

We were first appointed as auditors of the Group on 2 May 2019 by shareholder’s resolution. Our appointment represents a total period of uninterrupted engagement appointment of 1 year.

The key audit partner on the audit resulting in this independent auditor’s report is Rimvydas Jogėla.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No. 000457

Vilnius, Republic of Lithuania
8 April 2020

*(All tabular amounts are in EUR thousands unless otherwise stated)*

# Consolidated statement of financial position

| | Notes | At 31 December 2019 | At 31 December 2018 *(restated)** |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 700,698 | 626,535 |
| Right-of-use assets | 6 | 691,458 | - |
| Investment properties | 7 | 18,370 | 13,796 |
| Intangible assets (except for goodwill) | 8 | 56,574 | 94,039 |
| Goodwill | 9 | 212,178 | 212,098 |
| Non-current receivables and prepayments | 10 | 17,038 | 9,045 |
| Deferred tax assets | 11 | 10,014 | 5,319 |
| | | **1,706,331** | **960,832** |
| **Current assets** | | | |
| Inventories | 12 | 328,950 | 311,232 |
| Trade and other receivables, prepayments and other short-term financial assets | 13 | 76,734 | 69,287 |
| Cash and cash equivalents | 14 | 272,909 | 222,067 |
| | | **678,593** | **602,586** |
| **TOTAL ASSETS** | | **2,384,924** | **1,563,418** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 15 | 1,019,263 | 1,019,263 |
| Share premium | 15 | 41,352 | 41,352 |
| Legal reserve | 16 | 36,163 | 30,720 |
| Reverse acquisition reserve | 16 | (1,430,271) | (1,430,271) |
| Other reserves | | (137) | 382 |
| Foreign currency translation reserve | | (9,576) | (12,936) |
| Retained earnings | | 685,606 | 643,914 |
| **Total equity** | | **342,400** | **292,424** |
| **Non-current liabilities** | | | |
| Borrowings (except for lease liabilities) | 17 | 492,616 | 514,134 |
| Lease liabilities | 6 | 593,602 | 1,232 |
| Deferred tax liabilities | 11 | 20,919 | 24,531 |
| Other non-current liabilities | | 2,887 | 3,946 |
| | | **1,110,024** | **543,843** |
| **Current liabilities** | | | |
| Borrowings (except for lease liabilities) | 17 | 104,065 | 57,200 |
| Lease liabilities | 6 | 94,293 | 722 |
| Current income tax liabilities | | 7,928 | 421 |
| Trade and other payables | 18 | 726,214 | 668,807 |
| | | **932,500** | **727,151** |
| **Total liabilities** | | **2,042,524** | **1,270,994** |
| **TOTAL EQUITY AND LIABILITIES** | | **2,384,924** | **1,563,418** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

Jurgita Šlekytė
Chief Executive Officer

Vitalij Rakovski
Chief Financial Officer

The consolidated financial statements have been approved and signed on 8 April 2020.

*The accompanying notes are an integral part of these consolidated financial statements.*

*(All tabular amounts are in EUR thousands unless otherwise stated)*

# Consolidated statement of comprehensive income

| | Notes | Year ended 31 December 2019 | 2018 (restated)* |
|---|---|---|---|
| Revenue | 4, 19 | 3,993,140 | 3,450,953 |
| Cost of sales | | (3,659,698) | (3,169,292) |
| Operating expenses | 20 | (157,408) | (131,250) |
| Other gains (losses) | 22 | 11,625 | (13) |
| **Profit from operations** | | **187,660** | **150,398** |
| Finance income | 21 | 465 | 159 |
| Finance costs | 21 | (32,975) | (10,178) |
| Finance costs, net | | (32,510) | (10,019) |
| **Profit before tax** | | **155,150** | **140,379** |
| Income tax expense | 23 | (26,015) | (24,064) |
| **Net profit** | 4 | **129,135** | **116,315** |
| **Net profit attributable to:** | | | |
| Equity holders of the parent | | 129,135 | 116,315 |
| | | **129,135** | **116,315** |
| **Other comprehensive income:** | | | |
| *Items that will not be subsequently reclassified to profit or loss* | | - | - |
| *Items that may be subsequently reclassified to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | 3,375 | (10,693) |
| Reclassification of exchange differences to profit or loss on disposal of subsidiary | 22 | (15) | - |
| Net gain (loss) on cash flow hedges | | (519) | 321 |
| **Other comprehensive income** | | **2,841** | **(10,373)** |
| **Total comprehensive income** | | **131,976** | **105,942** |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the parent | | 131,976 | 105,942 |
| | | **131,976** | **105,942** |
| **Earnings per share for profit attributable to ordinary equity holders of the parent (EUR)** | | | |
| Basic/diluted | 24 | 0.037 | 0.033 |

* See Note 31 for details about restatement as a result of completed accounting for business combination

Jurgita Šlekytė
Chief Executive Officer

Vitalij Rakovski
Chief Financial Officer

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# Consolidated statement of changes in equity

| | Notes | Share capital | Share premium | Legal reserve | Reverse acquisition reserve | Other reserves | Foreign currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | **1,019,263** | **41,352** | **25,749** | **(1,430,271)** | **61** | **(2,243)** | **622,571** | **276,482** |
| Profit for the year *(restated)** | | - | - | - | - | - | - | 116,315 | 116,315 |
| Other comprehensive income *(restated)** | | - | - | - | - | 321 | (10,693) | - | (10,373) |
| *Total comprehensive income for the year (restated)** | | - | - | - | - | *321* | *(10,693)* | *116,315* | *105,942* |
| Transfer to legal reserve | 16 | - | - | 4,971 | - | - | - | (4,971) | - |
| Dividends | 25 | - | - | - | - | - | - | (90,000) | (90,000) |
| *Total transactions with shareholders recognised directly in equity* | | - | - | *4,971* | - | - | - | *(94,971)* | *(90,000)* |
| **At 31 December 2018 *(restated)**** | | **1,019,263** | **41,352** | **30,720** | **(1,430,271)** | **382** | **(12,936)** | **643,914** | **292,424** |
| | | | | | | | | | |
| **At 31 December 2018 *(restated)**** | | **1,019,263** | **41,352** | **30,720** | **(1,430,271)** | **382** | **(12,936)** | **643,914** | **292,424** |
| Profit for the year | | - | - | - | - | - | - | 129,135 | 129,135 |
| Other comprehensive income | | - | - | - | - | (519) | 3,360 | - | 2,841 |
| *Total comprehensive income for the year* | | - | - | - | - | *(519)* | *3,360* | *129,135* | *131,976* |
| Transfer to legal reserve | 16 | - | - | 5,443 | - | - | - | (5,443) | - |
| Dividends | 25 | - | - | - | - | - | - | (82,000) | (82,000) |
| *Total transactions with shareholders recognised directly in equity* | | - | - | *5,443* | - | - | - | *(87,443)* | *(82,000)* |
| **At 31 December 2019** | | **1,019,263** | **41,352** | **36,163** | **(1,430,271)** | **(137)** | **(9,576)** | **685,606** | **342,400** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

Jurgita Šlekytė
Chief Executive Officer

Vitalij Rakovski
Chief Financial Officer

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*The accompanying notes are an integral part of these consolidated financial statements.*

*(All tabular amounts are in EUR thousands unless otherwise stated)*

# Consolidated statement of cash flows

| | Notes | Year ended 31 December 2019 | 2018 (restated)* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net profit | | 129,135 | 116,315 |
| Adjustments for: | | | |
| Depreciation | | 144,129 | 62,078 |
| Amortisation | | 10,996 | 12,608 |
| Property, plant & equipment and intangible assets write-offs | | 842 | 421 |
| Property, plant & equipment, intangible assets, right-of-use assets impairment charge (reversal) | | 502 | (1,777) |
| Loss / (profit) on disposal of property, plant and equipment | | (929) | 236 |
| (Profit) from disposal of subsidiaries | | (10,696) | - |
| Income tax expense | 23 | 26,015 | 24,064 |
| Interest expenses | 21 | 32,444 | 9,304 |
| Interest income | 21 | (465) | (159) |
| Fair value (gains) losses on derivative financial instruments | | (519) | 321 |
| *Changes in working capital* | | | |
| - trade and other receivables | | (7,365) | (2,740) |
| - inventories | | (18,194) | (21,293) |
| - trade and other payables | | 50,496 | 31,154 |
| **Cash generated from operations** | | **356,390** | **230,532** |
| Income tax paid | | (22,435) | (21,181) |
| **Net cash generated from operating activities** | | **333,955** | **209,351** |
| **INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment, intangible assets and investment properties | | (126,609) | (92,304) |
| Proceeds from disposal of property, plant and equipment | | 2,980 | 1,390 |
| Acquisition of subsidiaries, net of cash acquired | | (7) | (91,105) |
| Proceeds from disposal of subsidiary, net of cash disposed | | 11,694 | - |
| Loans granted | | 140 | (218) |
| Proceeds from repayment of loans granted | | 297 | 1,501 |
| Interest received | | 94 | 159 |
| Increase in time deposits (over 3 months) | | - | (109) |
| Finance sublease receivable collected | | 2,799 | - |
| **Net cash (used in) investing activities** | | **(108,612)** | **(180,686)** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 72,354 | 657,859 |
| Repayment of borrowings | | (59,501) | (514,504) |
| Payment of principal and interest on leases | | (102,441) | - |
| Dividends paid | 25 | (82,000) | (90,000) |
| Interest paid | | (14,263) | (6,173) |
| **Net cash generated from (used in) financing activities** | | **(185,851)** | **47,182** |
| **Net increase (decrease) in cash and cash equivalents** | | **39,492** | **75,847** |
| **CASH AND CASH EQUIVALENTS, LESS OVERDRAFTS, AT THE BEGINNING OF THE YEAR** | 14 | **222,067** | **146,220** |
| **CASH AND CASH EQUIVALENTS, LESS OVERDRAFTS, AT THE END OF THE YEAR** | 14 | **261,559** | **222,067** |

* *See Note 31 for details about restatement as a result of completed accounting for business combination*

Jurgita Šlekytė
Chief Executive Officer

Vitalij Rakovski
Chief Financial Officer

The consolidated financial statements have been approved and signed on 8 April 2020.
*The accompanying notes are an integral part of these consolidated financial statements.*

*(All tabular amounts are in EUR thousands unless otherwise stated)*

# Notes to the consolidated financial statements

## 1. General information

MAXIMA GRUPĖ, UAB (hereinafter "the Company") was incorporated and commenced its operations on 23 August 2007. The Company's registered address is Savanoriu av. 247, Vilnius, Lithuania. The Company's legal status - private limited liability company.

The sole shareholder of the Company is Uždaroji Akcinė Bendrovė Vilniaus Prekyba incorporated in Lithuania. The ultimate shareholder is METODIKA B.V., incorporated in the Netherlands.

The consolidated group is comprised of the Company and its subsidiary undertakings (hereinafter collectively referred to as "the Group"). In 2019 and 2018, the Group's main subsidiaries are provided in the table below. Other subsidiaries not listed below are mainly involved in real estate management. The Group owns 100% of shares in all subsidiaries.

| Name | Country of incorporation | % held by the Group (on 31 December) | | Principal business activities |
|---|---|---|---|---|
| | | 2019 | 2018 | |
| MAXIMA GRUPĖ, UAB | Lithuania | | | Holding company |
| MAXIMA LT, UAB | Lithuania | 100% | 100% | Retail in food and consumables |
| MAXIMA Latvija SIA | Latvia | 100% | 100% | Retail in food and consumables |
| MAXIMA Eesti OU | Estonia | 100% | 100% | Retail in food and consumables |
| MAXIMA Bulgaria EOOD | Bulgaria | 100% | 100% | Retail in food and consumables |
| Stokrotka Sp.z.o.o. | Poland | 100% | - | Retail in food and consumables |
| Sano Sp.z.o.o. (merged with Stokrotka Sp.z.o.o. in 2019) | Poland | - | 100% | Retail in food and consumables |
| BARBORA, UAB | Lithuania | 100% | 100% | E-trade |
| PATRIKA SIA | Latvia | 100% | 100% | E-trade |
| SUPERSA OU | Estonia | 100% | 100% | E-trade |
| FRANMAX, UAB | Lithuania | 100% | 100% | Franchise and agency services |
| MAXIMA INTERNATIONAL SOURCING, UAB (established in 2019) | Lithuania | 100% | - | Wholesale and agency of food and consumables |

The Group's principal business activity is retail in food and consumables.

As of 31 December 2019, the Group employed 40.6 thousand employees (total remuneration related costs amounted to EUR 454 million in 2019) (31 December 2018: 40.3 thousand, remuneration related costs EUR 365 million).

The Group's bonds are traded at Euronext Dublin (Ireland) and Nasdaq Vilnius (Lithuania) stock exchanges (Note 17).

The Company's management authorized these consolidated financial statements on 8 April 2020. The Company's shareholders have a statutory right to approve or not to approve these consolidated financial statements and to require the preparation of a new set of consolidated financial statements.

## 2. Accounting policies

The accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies adopted are consistent with those of the previous financial year, except for the below amended IFRSs which have been adopted by the Group as of 1 January 2019 and changes in accounting policies as described in Note 31.

### *2.1. Basis of preparation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS"), as adopted by the European Union (hereinafter "the EU"). These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

All amounts in these consolidated financial statements are presented in euros, the functional currency of the Company and presentation currency of the Group, and they have been rounded to the nearest thousand (in thousand EUR), unless otherwise stated. Due to rounding the numbers in these consolidated financial statements may not sum up.

### *2.2. Adoption of new and/or revised IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC)*

**New standards, amendments and interpretations adopted by the Group**

**IFRS 16 *Leases***
IFRS 16 replaces IAS 17 *Leases* and specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor, except for subleases treated as finance leases under IFRS 16.

The Group adopted IFRS 16 using the modified retrospective transition method with the date of initial application being 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 as an adjustment to the opening balance of retained earnings. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* 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"), and lease contracts for which the underlying asset is of low value ("low-value assets"). Also the Group elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics and used a hindsight in determining the lease term where the lease contract contained options to extend or terminate the lease.

The effect of adoption of IFRS 16 as of 1 January 2019 is disclosed in Note 31. New accounting policies upon adoption of IFRS 16 are set out below in Note 2.19.

**IFRS 9: *Prepayment features with negative compensation (Amendments)***
Amendments allow 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 amortised cost or at fair value through other comprehensive income. These amendments had no impact on the consolidated financial statements of the Group.

**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. These amendments had no impact on the consolidated financial statements of the Group.

**IFRIC Interpretation 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 *Income taxes*. 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.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

**Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23**
The narrow scope amendments impact four standards.

- 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 recognised according to where the past transactions or events that generated distributable profits have been recognised.
- IAS 23 *Borrowing Costs*: The amendments clarify 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.

These amendments had no impact on the consolidated financial statements of the Group.

***IFRSs issued but not yet effective***

Other new standards, amendments to standards and interpretations effective for the annual periods beginning on or after 1 January 2020, yet not applied in preparing these consolidated financial statements are presented below. The new accounting pronouncements have been endorsed by the European Union unless otherwise stated.

**IFRS 3 *Business Combinations* (Amendments)** (effective for annual periods beginning on or after 1 January 2020)
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines 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. These Amendments will affect future business combinations from time the amendments become effective.

**IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of 'material' (Amendments)** (effective for annual periods beginning on or after 1 January 2020)
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. The Group has preliminary evaluated the impact of the implementation of these Amendments and has not identified any impact to its consolidated financial statements.

**Conceptual Framework in IFRS standards** (effective for annual periods beginning on or after 1 January 2020)
The IASB issued the revised Conceptual Framework for Financial Reporting. 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.

**Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7** (effective for annual periods beginning on or after 1 January 2020)
The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Group is currently assessing the impact of the Amendments on its consolidated financial statements.

**Classification of liabilities as current or non-current – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2022)
These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these Amendments.

**Other standards**
There are no other IFRSs, IAS amendments or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

The Group plans to adopt the above mentioned standards and interpretations on their effective dates provided they are endorsed by the EU.

### *2.3. Consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All material intra-group transactions, balances, income and expenses and unrealised profit (loss) between Group companies are eliminated on consolidation.

### *2.4. Business combinations*

The acquisition of subsidiaries, including entities under common control in cases when the transaction has substance from the perspective of the Group, is accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRSs are recognised at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

### *2.5. Goodwill*

Goodwill arising on the acquisition of a subsidiary represents the excess of the consideration transferred over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Bargain purchase gain is recognised in profit or loss on the acquisition moment.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or their groups) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### *2.6. Property, plant and equipment*

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the straight-line method to allocate the cost of assets to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 5 – 30 years |
| Equipment and other assets | 2 – 12 years |
| Vehicles | 1 – 5 years |

Leasehold improvements are depreciated on a straight–line basis over the shorter of the estimated useful life of the improvement and the term of the lease.

Properties in the course of construction for operations or for administrative purposes are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property, plant and equipment acquired under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or the lease term, if shorter.

Land is not depreciated.

Depreciation of property, plant and equipment is recognised in the statement of comprehensive income. Depreciation of property, plant and equipment directly related to sales of goods and services is recognised in cost of sales and depreciation of other property, plant and equipment is recognised in operating expenses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

The gain or loss arising on the disposal of an asset is recognised in profit or loss.

### *2.7. Investment properties*

Investment properties, store buildings and other commercial premises, are held for long-term rental yields and are not occupied by the Group. They are measured initially at cost. Subsequent to initial recognition, investment properties are stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated using the straight-line method to allocate the cost of assets to their residual values over their estimated useful lives of 10 – 30 years. Land is not depreciated.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use.

### *2.8. Intangible assets with finite useful lives*

Intangible assets expected to provide economic benefits in future periods are valued at acquisition cost less subsequent accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated on the straight-line method to write off the cost of each asset over their estimated useful lives.

Intangible assets acquired in a business combination (trademarks, customer contracts) are recognised at fair value at the acquisition date. They have finite useful life and are carried at cost (being fair value if acquired in a business combination) less accumulated amortisation and impairment losses, if any.

All amortisation of intangible assets is recognised in the statement of comprehensive income as operating expenses unless it relates to operation of warehouses or retail outlets when it is recognised as cost of sales. The Group amortises intangible assets over the following periods:

| | |
|---|---|
| Software | 2 - 5 years |
| Brands and trademarks | 5 - 15 years |
| Customer contracts | 15 years |
| Other intangible assets | 2 - 5 years |

### *2.9. Impairment of non-financial assets (except for goodwill)*

At each financial year end, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### *2.10. Inventories*

Inventories are stated at the lower of weighted average cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in selling.

The cost of inventories is net of volume discounts and rebates received from suppliers during the reporting period but applicable to the inventories still held in stock. Logistics costs incurred for transportation of inventory between different locations of retail operators are accounted as cost of sales in the relevant accounting period.

### *2.11. Financial instruments*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *2.11.1. Financial assets*

<u>*Initial recognition and measurement*</u>

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and other receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and other receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 *Revenue from contracts with customers*. Refer to the accounting policies in Note 2.15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, 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.

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 are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the below categories:
- Financial assets at amortised cost,
- Financial assets at fair value through OCI,
- Financial assets at fair value through profit or loss.

*a) Financial assets at amortised cost*

The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade and other receivables, cash and cash equivalents, time deposits and loans granted.

*b) Financial assets at fair value through OCI*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments*: *Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

*c) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade and other receivables the Group applies a simplified approach in calculating ECLs. 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 a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In addition, the Group reviews individual significant trade and other receivables and recognises individual loss allowances if needed.

The Group considers a financial asset in default when contractual payments are more than 90 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### *2.11.2. Financial liabilities*

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as follows:
- financial liabilities at fair value through profit or loss,
- financial liabilities at amortised cost,
- derivatives designated as hedging instruments in an effective hedge.

All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, borrowings including bank overdrafts and bonds, and derivative financial instruments.

<u>*Subsequent measurement*</u>

The measurement of financial liabilities depends on their classification, as described below:

*a) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9 *Financial instruments*.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

*b) Financial liabilities at amortised cost*

After initial recognition financial liabilities at amortised cost are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing borrowings, including bank overdrafts and issued bonds, and trade and other payables.

<u>*Derecognition*</u>

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

### *2.11.3. Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

## *2.12. Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized. All other borrowing costs are expensed in the period they occur.

## *2.13. Derivative financial instruments and hedging activities*

The Group engages in derivative financial instruments transactions, such as forwards, to hedge purchase and sale price fluctuation risk, and interest rate swaps to hedge cash flows fluctuation risk of EURIBOR on the loans taken from banks, i. e. effectively switching the interest into a fixed rate.

On the agreement date and subsequently derivative financial instruments are accounted for at fair value. Fair value is derived from quoted market prices for forwards (level 1) and using valuation models for interest rate swaps (level 2 and 3). The estimated fair values of these contracts are reported in the statement of financial position as assets for contracts having a positive fair value and liabilities for contracts with a negative fair value. Gain or losses from changes in the fair value of derivative financial instruments are recognised in the statement of comprehensive income.

For the purposes of hedge accounting, hedges are classified into two categories:
(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; and
(b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument;
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship;
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

<u>Cash flow hedges</u>

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the other reserves, while any ineffective portion is recognised immediately in profit or loss. The other reserves are adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period during which the hedged cash flows affect profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income (profit or loss).

### *2.14. Provisions*

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### *2.15. Revenue from contracts with customers*

*a) Retail revenue*

The Group recognises revenue from its retail customers as it satisfies its performance obligations at the point of check out in its retail stores. Revenue from online sales is recognised upon delivery of goods, i.e. upon transfer of control of goods to customer. Revenue from the sale of gift cards is recognised when the gift card is redeemed by the retail customer or expire, whichever event occurs earlier.

The Group operates a loyalty programme, which allows customers to accumulate points when they purchase products in the Group's retail stores and online. The points can be redeemed for payment of part of next purchase. A contract liability for the loyalty points is recognised at the time of the sale under contract liabilities in trade and other payables. Revenue is recognised at the earlier of when the points are redeemed or when they expire. For allocation of transaction price to the loyalty points see Note 3.1.

*b) Commission income*

For certain products and services, e.g. lottery tickets, prepaid telephone cards, resale of utilities services to tenants, collection of payments for utilities on behalf of utilities services providers from retail customers, etc., the Group acts as an agent and recognises commission income in its revenue when the related goods are sold in retail stores.

*c) Wholesale revenue*

The Group sells goods to franchisees and other retailers. Revenue is recognised when control of the sold goods has been transferred to the client in accordance with the terms of delivery.

*Contract 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 on the acceptance of the goods and services by the customer.

*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 2.11.1.

*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.

### *2.16. Cost of sales*

Cost of sales consists of cost of inventory, net of supplier discounts, and other costs attributable to sales of goods, including warehousing, logistics and retail operations.

Cost of sales are reduced by slotting fees and advertising income earned in accordance with written agreements with suppliers that the Group will be paid for promotional activities, including various advertising and market development efforts in the retail stores. Cost of sales are also shown net of fines and penalties received from suppliers for, e.g. late delivery or poor quality of goods. See Note 3.1 for critical judgements applied.

As at the year end supplier discounts are allocated to the carrying value of inventory based on the amount of inventory sold and remaining in inventory.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

The Group's cost of sales can be sub-divided into: the cost of goods sold (accounting for approximately 79.9 per cent of the total cost of sales for the year ended 31 December 2019; 2018: approximately 80 per cent), employee remuneration costs (accounting for approximately 10.5 per cent of the total cost of sales for the year ended 31 December 2019; 2018: approximately 10 per cent) and other costs including expenses relating to logistics, store rent, utilities, depreciation and amortisation and repair and maintenance (accounting for approximately 9.6 per cent of the total cost of sales for the year ended 31 December 2019; 2018: approximately 10 per cent).

### *2.17. Income tax*

The income tax expense comprises of current tax expenses and changes in deferred tax.

*a) Current income tax*

The current income tax expenses are based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current income tax rate is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The income tax rate for the Group companies in Lithuania comprises 15% (2018: 15%). The income tax for the Group companies, which operate in foreign countries, are calculated according to the laws of these foreign countries.

The main corporate income tax rates that have been applied in calculation of current income tax in respective countries:

| | 2019 | 2018 |
|---|---|---|
| Latvia* | 20/80 | 20/80 |
| Estonia* | 20/80 (14/86 for regular profit distribution amount) | 20/80 |
| Bulgaria | 10% | 10% |
| Poland | 19% | 19% |

* the taxation of income of subsidiaries operating in Estonia and Latvia is delayed till the moment of earnings distribution, i.e. till the moment of payment of dividends.

*b) Deferred income tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

As the object of taxation in Latvia and Estonia is dividends, not profit, there are no differences between the carrying amounts and tax bases of assets and liabilities which could give rise to deferred tax assets or liabilities. In the consolidated financial statements the Group makes provision for the taxes payable on the estimated dividend to be distributed in the foreseeable future from the retained earnings of Latvian and Estonian subsidiaries.

### *2.18. Employee benefits*

*a) Social security contributions*

The Group pays social security contributions to the state Social Security Funds (hereinafter - the Fund) on behalf of its employees based on the defined contribution plans in accordance with the local legal requirements in respective countries. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Social security contributions are recognised as expenses on an accrual basis in the statement of comprehensive income.

*b) Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan and agreements signed with employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*c) Bonus plans*

The group recognises a liability and an expense for employee bonuses when the Group is contractually obliged in accordance with the employment agreements or where there is a past practice that has created a constructive obligation. Long term liabilities are discounted.

### *2.19. Leases*

The determination of whether a contract is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### *2.19.1. The Group as a lessee*

As a lessee the Group recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

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, 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. Recognised right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. The right-of-use assets are subject to impairment, see Note 2.9.

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 less any lease incentives receivable and variable lease payments that depend on an index or a rate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period when they occur.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 lease 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.

Short-term leases and leases of low-value assets

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). It also applies the lease of low-value assets recognition exemption to leases of office and other equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

***2.19.2. The Group as a lessor***

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income are accounted for on a straight-line basis over the lease term and are included in revenue in the consolidated statement of comprehensive income.

***2.19.3. Sublease***

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the classification of a sublease as a finance lease or an operating lease with reference to the right-of-use asset arising from the head lease. When subleases are classified as finance leases the Group derecognises the right-of-use asset relating to the head lease that it transfers to the sublessee and presents the net investment in the sublease under non-current receivables and prepayments in the statement of financial position. During the term of the sublease the Group recognises finance income on sublease based on pattern reflecting a constant period rate of return on the net investment in the lease.

For subleases classified as operating lease, the Group recognises the lease income on a straight-line basis over the lease term and includes them in revenue in the consolidated statement of comprehensive income.

***2.20. Foreign currencies***

*a) Functional and presentation currency*

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in EUR, which is functional currency of the Company, and the presentation currency for the consolidated financial statements.

*b) Transactions and balances*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of those transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

*c) Group companies*

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in EUR using exchange rates prevailing on the reporting date.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

All resulting exchange differences are recognised in other comprehensive income and foreign currency translation reserve in equity. Such translation differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate. Exchange differences arising are recognised in other comprehensive income and foreign currency translation reserve in equity.

### *2.21. Contingencies*

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### *2.22. Dividend distribution*

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

### *2.23. Related parties*

Parties are defined as related if one party empowers another party to exercise the control or significant influence over the other party in making financial and other decisions. Related parties are defined as shareholders, key management personnel, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group companies.

### *2.24. Subsequent events*

Subsequent events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the consolidated financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

### *2.25. Rounding*

Due to rounding the numbers in these consolidated financial statements may not sum up.

## 3. Critical accounting judgements and key sources of estimation uncertainty

### 3.1. Critical judgments in applying the accounting policy

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Critical judgements in allocation of transaction price to the loyalty programme points

The Group operates a loyalty programme, which allows customers to accumulate points when they purchase products in the Group's retail stores and online. The points can be redeemed for payment of part of next purchase. The points provide a material right to customers that they would not receive without entering into a contract. Therefore, in the management's view, the promise to provide loyalty points to the customer is a separate performance obligation. The transaction price is allocated to the product and the loyalty points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. The stand-alone selling price of the product sold is estimated on the basis of the retail price. See Note 18 for contract liabilities as at the year end.

Critical judgement in classifying income from various advertising and market development services

The Group receives slotting fees for the product placements in stores and various advertising income from suppliers in cases when the retailer and the supplier have entered into written agreement that it will be paid for additional arrangement of the goods in the special places or for promotional activities, including various advertising and market development efforts. The product placement and advertising services cannot be sold separately from the supply of goods and the supplier would not obtain any rights or receive any benefit without selling products to the retailer. Therefore the Group concluded that such income should be recognised as a reduction of cost of sales.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases (buildings and land), to lease the assets for additional term of five to thirty years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to extend the lease term. It considers all relevant factors that create an economic incentive for it to exercise the renewal (e.g., lease term, geographical location of the store, leasehold improvements, etc). The Group included the renewal period as part of the lease term for leases of buildings leased for retail operations where after considering a number of relevant factors the Group concluded that it is reasonably certain that the Group will exercise an extension option. Potential future cash flows that have not been included in the lease liability for extension options which realisation is not reasonably certain are disclosed in Note 6.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Distinction between properties held for own use and those held to earn rental income.

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the retail operations or supply of goods or services or for administrative purposes. If one portion of the same property is used in the Group's activity, and other portion of the property is rented, leased portion of property is accounted for as investment property only if that property could be sold separately. If the property requires the separation before the portions can be sold separately, then those portions are not accounted for as separate portions until the separation is feasible, and are disclosed in property, plant and equipment in the consolidated statement of financial position. See Note 7 for disclosures of investment properties.

### 3.2. Key sources of estimation uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates and underlining assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, as well as in the future periods if the revision affects future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. Recoverable amounts for cash generating units are based on value in use, which is calculated from cash flow projections for five years using data from the Group's internal forecasts as well as the terminal value estimate. The key assumptions for the value in use calculations are those regarding discount rates, growth rates used to extrapolate cash flow projections beyond the period of five years, revenue and EBITDA growth. Management estimates discount rates using rates that reflect current market assessment of the time value of money and the risks specific to the cash-generating units. The discount rates ranged from 6.4 to 7.9 percent (2018: 6.7 – 8.4 percent) and terminal growth rate from 1.4 to 1.9 percent (2018: 1.4 – 1.9 percent). These discount rates are derived from the Group's post-tax weighted average cost of capital as adjusted for the specific risks relating to each geographical region. Changes in revenue and costs, and, consequently, EBITDA, are based on historical trends and expectations of future developments in the markets the Group operates. The increase in discount rates by 0.5 percent and decrease in terminal growth rates by 0.5 percent would not result in goodwill impairment. Further information is disclosed in Note 9.

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are tested for impairment at cash generated units which in most cases are separate stores. An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flow model does not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further information is disclosed in Note 5.

Allowances for inventories

The Group is estimating an allowance for slow-moving inventories. For this estimation all goods are grouped according to their estimated time of selling. Inventories that were not sold in a period defined for that group of inventory are considered to become impaired. Full cost of estimated impaired inventory is included in the calculation of the allowance.

The Group is estimating the allowance for shortages of goods in the shops and warehouses. The estimate is based on forecasted shortage between actual stock counts. The estimated amount is included in allowance for inventories.

Contingent liabilities

In the process of preparation of the annual financial statements the management evaluates available information on the status and potential outcome of pending litigations and other contingent liabilities (Note 30) and accordingly recognises necessary provisions and / or discloses in the consolidated financial statements.

## 4. Segment information

The Group's Board is the Chief Operating Decision Maker in the Group. Segments are defined based on how the Board monitors operating results of the separate Group's business units for the purpose of making decisions about resource allocation and performance assessment. The Group's operations are organised and monitored by the Board by two segments, i.e. retail operations and real estate management. Retail operations are further examined by the Board from the geographical perspective.

- Retail segment consists of the Group's retail operations in Lithuania, Latvia, Estonia, Bulgaria and Poland, e-commerce operations and unit providing intra-group franchise, wholesale and agency services. At the end of 2019 intra-group franchise activities were terminated and related intellectual property was transferred from the separate unit to the retail operators.
- Real estate segment leases commercial premises to the customers within the Group and externally.

Segment performance is evaluated based on revenue, EBITDA and net profit. EBITDA is non-IFRS measure. EBITDA is calculated by adjusting net profit by income tax expenses, depreciation and amortisation, finance income and costs, impairment and write-off of property, plant and equipment, investment properties and intangible assets, and profit from disposal of subsidiaries. The Board does not analyse assets and liabilities by segments. Accounting policies used for segments are the same as the accounting policies used in the preparation of the consolidated financial statements. Inter-segment transactions are eliminated upon consolidation and are reflected in the "Consolidation adjustments" column in the segment information below:

*(All tabular amounts are in EUR thousands unless otherwise stated)*

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail | | | | | | | |
| | **Lithuania** | **Latvia** | **Estonia** | **Bulgaria** | **Poland** | **E-commerce** | **Intra-group franchise, wholesale and agency services** | **Total retail** |
| Revenue | 1,709,683 | 836,727 | 486,292 | 149,513 | 886,655 | 14,864 | 289,664 | 4,373,399 |
| *incl. external customers* | *1,619,629* | *836,463* | *486,163* | *149,513* | *884,683* | *2,682* | *886* | *3,980,020* |
| *Incl. Inter-segment* | *90,054* | *264* | *130* | *-* | *1,972* | *12,182* | *288,778* | *393,379* |
| Interest expenses | 11,794 | 3,297 | 2,250 | 2,147 | 10,916 | 286 | 44 | 30,735 |
| EBITDA | 142,488 | 61,478 | 22,398 | 5,612 | 55,370 | (2,735) | 120,491 | 405,101 |
| Depreciation and amortisation | 66,215 | 27,720 | 21,883 | 7,007 | 49,858 | 1,732 | 2,161 | 176,574 |
| **Net profit (loss)** | **83,641** | **27,496** | **(3,266)** | **(4,719)** | **(3,073)** | **(4,742)** | **100,084** | **195,422** |

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total retail** | **Real estate** | **Other segments** | **Total reported segments** | **Other** | **Consolida-tion adjust-ments** | **Total** |
| Revenue | 4,373,399 | 60,951 | 19,672 | 4,454,022 | 4,680 | (465,562) | 3,993,140 |
| *incl. external customers* | *3,980,020* | *4,613* | *6,267* | *3,990,900* | *934* | *1,307* | *3,993,140* |
| *Incl. Inter-segment* | *393,379* | *56,338* | *13,405* | *463,122* | *3,747* | *(466,869)* | *-* |
| Interest expenses | 30,735 | 3,132 | 19 | *33,886* | 13,243 | (14,685) | *32,444* |
| EBITDA | 405,101 | 56,857 | 1,834 | 463,792 | (4,336) | (126,037) | 333,420 |
| Depreciation and amortisation | 176,574 | 25,409 | 355 | 202,337 | 661 | (47,872) | 155,126 |
| **Net profit (loss)** | **195,422** | **24,192** | **1,135** | **220,750** | **195,842** | **(287,457)** | **129,135** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

| | **2018** *(restated)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Retail** | | | | | | | |
| | **Lithuania** | **Latvia** | **Estonia** | **Bulgaria** | **Poland** | **E-commerce** | **Intra-group franchise and agency services** | **Total retail** |
| Revenue | 1,638,384 | 776,556 | 481,785 | 132,795 | 500,819 | 11,001 | 59,832 | 3,601,173 |
| *incl. external customers* | *1,551,203* | *776,123* | *481,597* | *132,795* | *496,955* | *1,804* | *71* | *3,440,549* |
| *Incl. Inter-segment* | *87,181* | *433* | *187* | *-* | *3,864* | *9,197* | *59,761* | *160,624* |
| Interest expenses | 2,146 | 11 | 4 | 302 | 474 | 131 | - | 3,069 |
| EBITDA | 83,067 | 32,950 | 11,727 | 780 | 3,134 | (2,748) | 48,425 | 177,335 |
| Depreciation and amortisation | 14,219 | 9,737 | 5,329 | 3,345 | 8,298 | 1,153 | 2,019 | 44,100 |
| **Net profit (loss)** | **106,461** | **21,915** | **7,421** | **(2,875)** | **(6,730)** | **(3,651)** | **40,048** | **162,587** |

| | **2018** *(restated)** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total retail** | **Real estate** | **Other segments** | **Total reported segments** | **Other** | **Consolida-tion adjust-ments** | **Total** |
| Revenue | 3,601,173 | 54,945 | 18,839 | 3,674,957 | 4,149 | (228,153) | 3,450,953 |
| *incl. external customers* | *3,440,549* | *3,409* | *5,963* | *3,449,921* | *1,032* | *-* | *3,450,953* |
| *Incl. Inter-segment* | *160,624* | *51,536* | *12,876* | *225,036* | *3,117* | *(228,153)* | *-* |
| Interest expenses | 3,069 | 2,463 | 12 | 5,544 | 8,277 | (4,517) | 9,304 |
| EBITDA | 177,335 | 49,423 | 1,877 | 228,635 | (5,115) | 71 | 223,590 |
| Depreciation and amortisation | 44,100 | 29,291 | 227 | 73,617 | 259 | 809 | 74,685 |
| **Net profit (loss)** | **162,587** | **15,418** | **2,064** | **180,069** | **177,806** | **(241,560)** | **116,315** |

* *See Note 31 for details about restatement as a result of completed accounting for business combination*

Column "Other segments" above include segments that are not reportable in accordance with IFRS. Other segments derive revenue from provision of security and IT services. In column "Other" above are included results of corporate headquarters and other intermediary holdings in the Group.

As a result of IFRS 16 adoption, the Group's net profit in 2019 decreased by EUR 9,424 thousand and EBITDA increased by EUR 98,882 thousand. If the Group had not adopted IFRS 16, its EBITDA and net profit for 2019 would have been as follows:

*(All tabular amounts are in EUR thousands unless otherwise stated)*

| | Retail | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Lithuania** | **Latvia** | **Estonia** | **Bulgaria** | **Poland** | **E-commerce** | **Intra-group franchise, wholesale and agency services** | **Total retail** |
| EBITDA* | | | | | | | | |
| 2019 | 79,920 | 38,460 | 4,453 | 630 | 12,908 | (3,177) | 120,135 | 253,330 |
| 2018 | 83,067 | 32,950 | 11,727 | 780 | 3,134 | (2,748) | 48,425 | 177,335 |
| Net profit* | | | | | | | | |
| 2019 | 87,275 | 29,601 | (2,041) | (1,157) | (473) | (3,977) | 100,085 | 209,312 |
| 2018 | 106,461 | 21,915 | 7,421 | (2,875) | (6,730) | (3,651) | 40,048 | 162,587 |

| | **Total retail** | **Real estate** | **Other segments** | **Total reported segments** | **Other** | **Consolidation adjustments** | **Total** |
|---|---|---|---|---|---|---|---|
| EBITDA* | | | | | | | |
| 2019 | 253,330 | 55,996 | 1,715 | 311,041 | (4,507) | (71,996) | 234,539 |
| 2018 | 177,335 | 49,423 | 1,877 | 228,635 | (5,115) | 71 | 223,590 |
| Net profit* | | | | | | | |
| 2019 | 209,312 | 24,596 | 1,139 | 235,047 | 195,851 | (292,340) | 138,558 |
| 2018 | 162,587 | 15,418 | 2,064 | 180,069 | 177,806 | (241,560) | 116,315 |

**EBITDA and net profit for 2019 excludes IFRS 16 impact.*

The Company is domiciled in Lithuania. The amount of the Group's revenue from external customers broken down by countries is shown below:

| | **2019** | **2018** |
|---|---|---|
| Lithuania | 1,624,142 | 1,553,247 |
| Latvia | 836,617 | 776,213 |
| Estonia | 486,694 | 481,669 |
| Bulgaria | 149,513 | 132,795 |
| Poland | 895,944 | 506,716 |
| Other | 229 | 313 |
| | **3,993,140** | **3,450,953** |

Non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets, are shown below:

| | **2019** | **2018** *(restated)** |
|---|---|---|
| Lithuania | 461,417 | 220,576 |
| Latvia | 439,343 | 256,582 |
| Estonia | 191,054 | 119,973 |
| Bulgaria | 80,002 | 32,574 |
| Poland | 507,410 | 316,752 |
| Other | 54 | 12 |
| | **1,679,278** | **946,469** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 5. Property, plant and equipment

| | Land and buildings | Equipment and other assets | Vehicles | Construction in progress & prepayments | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | 756,048 | 305,901 | 1,951 | 15,229 | 1,079,129 |
| Additions | 13,880 | 39,439 | 1,802 | 32,966 | 88,087 |
| Acquisition of subsidiaries *(restated)** (Note 26) | 119,570 | 37,041 | 2,182 | 1,663 | 160,456 |
| Disposals and write-offs | (1,966) | (16,396) | (717) | (629) | (19,708) |
| Exchange differences | 445 | (2,246) | (91) | (49) | (1,941) |
| Reclassifications (to) from other assets | (206) | 566 | - | (103) | 257 |
| Reclassifications | 20,377 | 10,943 | 1 | (31,322) | - |
| At 31 December 2018 | 908,148 | 375,249 | 5,129 | 17,755 | 1,306,280 |
| Additions | 2,309 | 62,301 | 1,049 | 65,591 | 131,250 |
| Disposals and write-offs | (5,822) | (23,260) | (691) | (2,676) | (32,448) |
| Exchange differences | 2,530 | 1,540 | 53 | 76 | 4,199 |
| Reclassifications (to) from other assets | (5,194) | 416 | (1) | (20) | (4,799) |
| Reclassifications (to) right of use assets on adoption of IFRS 16 (Note 31) | - | - | (3,217) | - | (3,217) |
| Disposal of subsidiaries (Note 22) | (14) | (2,137) | (625) | (3) | (2,779) |
| Reclassifications | 31,807 | 16,175 | 1 | (47,982) | - |
| At 31 December 2019 | 933,764 | 430,284 | 1,698 | 32,740 | 1,398,486 |
| | | | | | |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 January 2018 | 422,227 | 207,492 | 520 | 5,592 | 635,831 |
| Depreciation | 22,897 | 37,711 | 1,173 | - | 61,780 |
| Impairment charge (reversal) | (1,733) | (44) | - | - | (1,777) |
| Disposals and write-offs | (842) | (15,711) | (597) | (43) | (17,194) |
| Reclassifications (to) from other assets | (14) | (159) | - | - | (173) |
| Exchange differences | 2,451 | (1,113) | (46) | (13) | 1,279 |
| At 31 December 2018 | 444,986 | 228,175 | 1,050 | 5,536 | 679,746 |
| Depreciation | 16,461 | 32,156 | 810 | - | 49,426 |
| Impairment charge (reversal) | (3,666) | 490 | - | 41 | (3,135) |
| Disposals and write-offs | (1,506) | (22,685) | (507) | (311) | (25,009) |
| Exchange differences | 130 | 591 | 29 | - | 750 |
| Reclassifications (to) from other assets | (701) | (93) | 100 | - | (694) |
| Reclassifications (to) right of use assets on adoption of IFRS 16 (Note 31) | - | - | (1,588) | - | (1,588) |
| Disposal of subsidiaries (Note 22) | (8) | (1,346) | (353) | - | (1,708) |
| At 31 December 2019 | 455,695 | 237,288 | (460) | 5,266 | 697,789 |
| | | | | | |
| **Carrying amount** | | | | | |
| At 31 December 2019 | 478,070 | 192,996 | 2,158 | 27,474 | 700,698 |
| At 31 December 2018 *(restated)** | 463,162 | 147,075 | 4,079 | 12,218 | 626,535 |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

In 2019, major part of depreciation of property, plant and equipment was accounted for as cost of sales – EUR 47,964 thousand (2018: EUR 56,304 thousand). Remaining part is accounted for as operating expenses.

*Impairment of property, plant and equipment*

The Group has determined that for the purposes of impairment testing, each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indications of impairment at the reporting date.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

Recoverable amounts for cash-generating units are based on value in use, which is calculated from cash flow projections for five years using data from the Group's latest internal forecasts as well as the terminal value estimate. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected future cash inflows. The terminal growth rate is in line with average retail market growth trends. Management estimates discount rates using post-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Post-tax discount rates are used to discount post-tax estimated cash flows.

The post-tax discount rates used to calculate value in use range from 6.4 to 7.9 percent (2018: 6.7 – 8.4 percent) and terminal growth rates range from 1.4 to 1.9 percent (2018: 1.4 to 1.9 percent) depending on the specific country conditions in which each store operates. Pre-tax discount rates were in the range from 7.1 to 8.6 percent (2018: 7.3 to 8.9 percent).

*Pledged property, plant and equipment*

The Group has pledged property, plant and equipment with the total carrying value of EUR 310,470 thousand (2018: EUR 228,397 thousand) to secure banking facilities granted to the Group (Note 17).

*Review of useful lives*

At the beginning of 2019 the Group reviewed useful lives of its property, plant and equipment and made amendments in order to better reflect expected usage of assets and physical wear and tear. As a result of change in accounting estimate, the Group's depreciation expenses decreased by EUR 27,511 thousand during the year ended 31 December 2019.

## 6. Leases

***The Group as a lessee***

The Group has lease contracts for land, buildings and vehicles used in its operations. Leases of buildings generally have lease terms between 2 and 35 years, while vehicles generally have lease terms between 1 and 5 years. Land is leased for a period between 5 and 99 years. 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 the leased assets. There are lease contracts that include extension options, which are further discussed below.

The Group also has certain leases of equipment with lease terms of 12 months or less and leases of office and other equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below is the carrying amount of right-of-use assets at the end of the reporting period:

| | **Land** | **Buildings** | **Vehicle** | **Total** |
|---|---|---|---|---|
| At 31 December 2019 | 13,196 | 666,004 | 12,258 | **691,458** |

Additions to the right-of-use assets during 2019 were EUR 103,860 thousand.

The Group has pledged right-of-use assets with the total carrying value of EUR 4,628 thousand to secure banking facilities granted to the Group (Note 17).

Depreciation charge of right-of-use assets during the year is provided below:

| | **Land** | **Buildings** | **Vehicle** | **Total** |
|---|---|---|---|---|
| 2019 | 843 | 88,393 | 5,012 | **94,249** |

Interest expense on lease liabilities are disclosed in Note 21. In 2019 expenses relating to short-term leases, leases of low-value assets amounted to EUR 5,909 thousand.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. In addition, the Group has ability to re-negotiate terms of lease contracts with the property owners which also contributes to the Group's flexibility. As of 31 December 2019, potential future cash outflows of EUR 178,730 thousand have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

***The Group as a lessor***

The Group leases and subleases retail and administrative premises to various tenants. These leases have terms between 2 and 40 years.

*Finance leases*

The Group recognises net investment in the lease for leases classified as finance leases. Finance income on the net investment in a lease are disclosed in Note 21.

A maturity analysis of the undiscounted lease payments receivable is provided below:

| | **2019** |
|---|---:|
| Within 1 year | 2,772 |
| Within 2 years | 2,532 |
| Within 3 years | 2,170 |
| Within 4 years | 1,859 |
| Within 5 years | 1,357 |
| After 5 years | 3,693 |
| | **14,382** |
| Unearned finance income | (1,306) |
| Net investment in the lease | **13,077** |

*Operating leases*

Rental income recognised by the Group during the year are disclosed in Note 19.

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | **2019** | **2018** |
|---|---:|---:|
| Not later than 1 year | 20,022 | 24,320 |
| Later than 1 year and no later than 5 years | 34,276 | 50,248 |
| Later than 5 years | 10,931 | 26,421 |
| | **65,229** | **100,990** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 7. Investment properties

| | Land and buildings |
|---|---|
| **Cost** | |
| At 1 January 2018 | - |
| Acquisition of a subsidiary (Note 26) | 14,348 |
| Exchange differences | (286) |
| At 31 December 2018 | 14,062 |
| Exchange differences | 180 |
| Reclassifications (to) from other assets | 5,325 |
| At 31 December 2019 | 19,567 |
| | |
| **Accumulated depreciation** | |
| At 1 January 2018 | - |
| Depreciation | 266 |
| At 31 December 2018 | 266 |
| Depreciation | 454 |
| Reclassifications (to) from other assets | 477 |
| At 31 December 2019 | 1,197 |
| | |
| **Carrying amount** | |
| At 31 December 2019 | 18,370 |
| At 31 December 2018 | 13,796 |

As of 31 December 2019, the fair value of investment properties amounted to EUR 19,393 thousand (31 December 2018: EUR 14,348 thousand). It was determined by independent valuators using discounted cash flow method (hierarchy level 3). Net operating income were estimated for a period of rent contracts signed and together with estimated terminal value discounted by applying 7 – 14.9 percent discount rates (31 December 2018: 7 – 14.9 percent).

The Group has pledged investment property with the total carrying value of EUR 13,459 thousand (2018: nil) to secure banking facilities granted to the Group (Note 17).

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 8. Intangible assets (except for goodwill)

| | Software | Brands and trademarks | Contracts with customers and lease contracts | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | 9,204 | 23,518 | - | 7,494 | 40,216 |
| Additions | 1,244 | - | - | 383 | 1,627 |
| Disposals and write-offs | (284) | - | - | (4) | (288) |
| Acquisition of subsidiaries *(restated)** (Note 26) | 1,078 | 40,524 | 26,627 | 4,943 | 73,171 |
| Exchange differences | (474) | - | - | (187) | (660) |
| Reclassifications | 62 | - | - | (62) | - |
| Reclassifications from (to) other assets | 648 | - | - | 302 | 951 |
| At 31 December 2018 | 11,478 | 64,042 | 26,627 | 12,869 | 115,016 |
| Additions | 2,495 | - | - | 128 | 2,624 |
| Disposals and write-offs | (521) | (24) | - | (64) | (609) |
| Disposal of subsidiaries (Note 22) | (1,013) | (175) | - | (533) | (1,722) |
| Exchange differences | 188 | (411) | (219) | 576 | 134 |
| Reclassifications | (1) | - | - | 1 | - |
| Reclassifications (to) right of use assets on adoption of IFRS 16 (Note 31) | - | - | (24,829) | - | (24,829) |
| Reclassifications from (to) other assets | 16 | - | - | (7,101) | (7,085) |
| At 31 December 2019 | 12,642 | 63,432 | 1,578 | 5,877 | 83,529 |
| | | | | | |
| **Accumulated amortisation** | | | | | |
| At 1 January 2018 | 4,746 | 369 | - | 2,388 | 7,503 |
| Amortisation | 2,600 | 6,811 | 2,295 | 934 | 12,640 |
| Disposals and write-offs | (276) | - | - | (6) | (282) |
| Exchange differences | (312) | 1 | 9 | 1,134 | 832 |
| Reclassifications from (to) other assets | 262 | - | - | 22 | 284 |
| Reclassifications | 61 | - | - | (61) | - |
| At 31 December 2018 | 7,082 | 7,181 | 2,304 | 4,411 | 20,977 |
| Amortisation | 2,803 | 7,761 | 71 | 361 | 10,996 |
| Impairment charge (reversal) | - | - | - | 217 | 217 |
| Disposals and write-offs | (385) | (8) | - | (19) | (412) |
| Disposal of subsidiaries (Note 22) | (658) | (22) | - | (497) | (1,176) |
| Exchange differences | 137 | (374) | (258) | (99) | (594) |
| Reclassifications (to) right of use assets on adoption of IFRS 16 (Note 31) | - | - | (2,206) | - | (2,206) |
| Reclassifications from (to) other assets | (1) | - | - | (846) | (847) |
| At 31 December 2019 | 8,978 | 14,539 | (89) | 3,527 | 26,956 |
| | | | | | |
| **Carrying amount** | | | | | |
| At 31 December 2019 | 3,664 | 48,893 | 1,668 | 2,350 | 56,574 |
| At 31 December 2018 *(restated)** | 4,396 | 56,861 | 24,323 | 8,458 | 94,039 |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

Part of amortisation of intangible assets is accounted for as costs of sales – EUR 346 thousand in 2019 (2018: EUR 454 thousand). Remaining part is accounted for as operating expenses.

Under the brands and trademarks the Group accounted for Stokrotka brand acquired in a business combination in 2018. Its carrying value amounted to EUR 32,765 thousand as of 31 December 2019 (2018: EUR 34,846 thousand) and it will be amortised over the remaining useful life of 13 years (2018: 14 years).

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 9. Goodwill

| | |
|---|---|
| **Cost** | |
| At 1 January 2018 | 147,002 |
| Exchange differences | (1,440) |
| Acquisition of subsidiaries (Note 26) | 67,405 |
| At 31 December 2018 *(restated)** | 212,967 |
| Exchange differences | 833 |
| Acquisition of subsidiaries | 10 |
| Disposal of subsidiaries (Note 22) | (764) |
| At 31 December 2019 | 213,045 |
| | |
| **Impairment** | |
| At 1 January 2018 | 867 |
| At 31 December 2019 | 867 |
| At 31 December 2019 | 867 |
| | |
| **Carrying amount** | |
| At 31 December 2019 | **212,178** |
| At 31 December 2018 *(restated)** | **212,098** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

For the purpose of impairment testing, the goodwill as of 31 December 2019 and 2018 was allocated to the below cash generating units which are also operating and reportable segments. Goodwill was allocated to cash generating units that are expected to benefit from the synergies of the business combination.

| | **2019** | **2018** *(restated)** |
|---|---|---|
| Retail - Lithuania | 21,347 | 21,164 |
| Retail - Latvia | 134,836 | 134,735 |
| Retail - Estonia | 12,756 | 12,688 |
| Retail - Bulgaria | 153 | 153 |
| Retail - Poland | 43,085 | 43,359 |
| | **212,178** | **212,098** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

Goodwill is reviewed for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitors that goodwill.

## 10. Non-current receivables and prepayments

| | **2019** | **2018** |
|---|---|---|
| Net investment in the lease (Note 6) | 10,496 | - |
| Prepayments | 6,541 | 8,108 |
| Other | - | 937 |
| | **17,038** | **9,045** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 11. Deferred income tax

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements thereof, during the current and prior reporting periods (before offsetting):

| Deferred tax assets | Accrued expenses | Contract liability | Tax losses | Impairment of assets | Different rates of depreciation and amortisation | Other | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2018** | 1,552 | 447 | 73 | 23 | - | 59 | 2,154 |
| (Charged) / credited to statement of comprehensive income | 128 | 26 | (1,110) | 610 | - | 1,063 | 717 |
| Acquisition of subsidiaries (Note 26) | 455 | 40 | 1,530 | 669 | - | 2,103 | 4,797 |
| Exchange differences | (9) | (1) | (30) | (14) | - | (36) | (90) |
| **At 31 December 2018** | **2,126** | **512** | **463** | **1,288** | **-** | **3,189** | **7,579** |
| (Charged) / credited to statement of comprehensive income | (101) | 94 | 597 | 418 | 4,789 | 1,696 | 7,491 |
| Disposal of subsidiaries (Note 22) | (33) | - | - | - | - | (179) | (211) |
| Exchange differences | 6 | 1 | 11 | 17 | (18) | (21) | (5) |
| Other | (4) | - | - | (73) | 393 | (556) | (240) |
| **At 31 December 2019** | **1,994** | **606** | **1,070** | **1,649** | **5,164** | **4,129** | **14,614** |

| Deferred tax liabilities | Different rates of depreciation and amortisation | Fair value adjustments | Taxable temporary differences on investments in subsidiaries | Total |
|---|---|---|---|---|
| **At 1 January 2018** | 478 | 3,704 | - | 4,182 |
| Charged (credited) to statement of comprehensive income | 750 | (2,103) | 4,300 | 2,947 |
| Acquisition of subsidiaries (Note 26) | 1,736 | 18,151 | - | 19,887 |
| Exchange differences | (26) | (198) | - | (224) |
| **At 31 December 2018 *(restated)**** | **2,938** | **19,553** | **4,300** | **26,792** |
| Charged (credited) to statement of comprehensive income | 2,901 | (2,616) | (2,114) | (1,829) |
| Disposal of subsidiaries (Note 22) | (54) | (86) | - | (141) |
| Exchange differences | (13) | 162 | - | 149 |
| Other | 550 | - | - | 550 |
| **At 31 December 2019** | **6,322** | **17,012** | **2,186** | **25,521** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

Deferred tax assets and liabilities have been offset when there was a legally enforceable right to set off current tax assets against current tax liabilities and when they related to income taxes levied by the same taxation authority and the Group intended to settle its current tax assets and liabilities on a net basis.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

*Taxable temporary differences on investments in subsidiaries*

As of 31 December 2019 the Group recognised deferred tax liability of EUR 2,186 thousand (2018: EUR 4,300 thousand) associated with investments in subsidiaries in Latvia and Estonia for the amounts that are planned to be distributed as dividends in the foreseeable future. Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amounted to EUR 46,964 thousand as of 31 December 2019 (2018: EUR 41,175 thousand).

*Tax losses*

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As of 31 December 2019 the Group did not recognise deferred income tax assets of EUR 3,843 thousand (2018: EUR 5,362 thousand) in respect of tax losses amounting to EUR 30,009 thousand (2018: EUR 39,312 thousand) that can be carried forward against future taxable income. The expiry dates of tax losses for which no deferred tax asset was recognised are provided below:

| | **2019** | **2018** |
|---|---|---|
| Within 1 year | 2,370 | 2,677 |
| Within 2 years | 1,775 | 2,681 |
| Within 3 years | 2,440 | 1,805 |
| Within 4 years | 16,068 | 2,520 |
| Within 5 years | 12 | 21,984 |
| Indefinitely | 7,344 | 7,646 |
| **Total** | **30,009** | **39,312** |

## 12. Inventories

| | **2019** | **2018** |
|---|---|---|
| Goods for resale | 315,085 | 287,644 |
| Goods in transit | 10,937 | 21,233 |
| Materials | 2,928 | 2,355 |
| | **328,950** | **311,232** |

The allowances for net realisable value of inventories, goods for resale, comprise EUR 11,195 thousand (2018: EUR 11,986 thousand). The change in allowance for inventory is accounted for in cost of sales. In 2019, decrease in allowance amounting to EUR 791 thousand was included in cost of sales (2018: increase of EUR 938 thousand).

As of 31 December 2018 inventories amounting to EUR 22,660 thousand were pledged to the banks as security for credit facilities granted (Note 17). No inventories were pledged as of 31 December 2019.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 13. Trade and other receivables, prepayments and other short-term financial assets

| | 2019 | 2018 |
|---|---|---|
| Trade receivables | 11,075 | 12,340 |
| Other receivables | 47,056 | 40,433 |
| Less: allowances for trade and other receivables | (3,718) | (3,044) |
| Trade and other receivables, net | 54,413 | 49,728 |
| Contract assets | 3,804 | 3,821 |
| Short term loans granted | 90 | 246 |
| | 58,307 | 53,796 |
| Deferred charges | 5,036 | 3,540 |
| Current year portion of net investment in the lease | 2,581 | - |
| Prepayments | 2,394 | 2,807 |
| Prepaid profit tax | 1,377 | 3,789 |
| VAT receivable | 5,654 | 4,958 |
| Other prepaid taxes | 1,386 | 397 |
| | **76,734** | **69,287** |

Other receivables mainly relate to receivables for sold property, plant and equipment and advertising and other services provided to the Group’s suppliers (see Note 2.16. for accounting policy).

Contract assets are assets recognised for services performed to the Group’s customers before the end of the year, but for which invoices have not been issued at that date. After invoice is issued, which reflects the unconditional right to payment, contract assets are transferred to trade receivables.

Trade receivables and other receivables are non-interest bearing and generally have payment terms of 21 to 41 days.

Movements of the Group’s allowance for expected credit losses of trade receivables and other receivables are as follows:

| | 2019 | 2018 |
|---|---|---|
| At 1 January | 3,044 | 374 |
| Acquisition of subsidiaries | - | 2,176 |
| Impairment losses | 990 | 1,104 |
| Write-off of impairment loss due to receivables write-off | (187) | (554) |
| Disposal of subsidiary | (130) | - |
| Other adjustments | - | (57) |
| At 31 December | **3,718** | **3,044** |

The amount of allowances for trade and other receivables expenses is recognised as operating expenses.

## 14. Cash and cash equivalents

| | 2019 | 2018 |
|---|---|---|
| Cash at bank | 226,584 | 174,120 |
| Cash on hand and in transit | 46,325 | 47,858 |
| Time deposits (up to 3 months) | - | 88 |
| | **272,909** | **222,067** |

Cash in transit is comprised of cash in the cash registers of the stores not yet collected for encashment and cash collected for encashment but not delivered to the bank yet, as well as cash transfers made at the year-end, which have not yet reached their destination before the year end. Cash in transit reaches the Group's bank accounts in several days after the year end.

Cash in certain bank accounts and future cash inflows into these accounts amounting to EUR 59,467 thousand (2018:EUR 51,377 thousand) were pledged to the banks as security for credit facilities granted (Note 17).

In the consolidated statement of cash flows cash and cash equivalents, less overdrafts, comprise of the following:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | 272,909 | 222,067 |
| Bank overdrafts (Note 17) | (11,350) | - |
| | **261,559** | **222,067** |

## 15. Share capital and share premium

| | 2019 | 2018 |
|---|---|---|
| Number of shares (in thousands) | 3,514,699 | 3,514,699 |
| Par value of one share | 0.29 | 0.29 |
| Total share capital | **1,019,263** | **1,019,263** |

In 2019 and 2018 there were no changes in the Company's share capital.

*Share premium*

Share premium was recognised for the difference between the proceeds received on share issue and par value of the shares issued.

## 16. Reserves

*Legal reserve*

Legal reserve is a compulsory reserve under the Lithuanian legislation. Legal reserve is made up by transfers from retained earnings. The reserve should comprise 10% of the Company's share capital and could be used to cover losses of the Company. Annual transfers of 5% of the Company's net profit are compulsory until the reserve reaches 10% of the Company's share capital. As of 31 December 2019, legal reserve amounted to EUR 36,163 thousand (2018: EUR 30,720 thousand).

*(All tabular amounts are in EUR thousands unless otherwise stated)*

*Reverse acquisition reserve*

In 2007, in the course of the Group's restructuring MAXIMA MGN, UAB, the newly incorporated subsidiary of the Company, acquired 100 per cent of shares of MAXIMA LT, UAB from the Company's sole shareholder Uzdaroji Akcine Bendrove Vilniaus Prekyba, for a total consideration of EUR 1,667,292 thousand. Before and after the restructuring the ultimate parent of the Group was Uzdaroji Akcine Bendrove Vilniaus Prekyba. The acquisition has been accounted for as a reverse acquisition, and for accounting purposes the legal subsidiary MAXIMA LT, UAB (identified as acquirer), has been deemed to have acquired the legal parent, MAXIMA GRUPĖ, UAB (identified as acquiree). The net assets of MAXIMA LT, UAB have been recognised at their pre-combination carrying amounts. No goodwill was recognised. The reverse acquisition reserve comprises principally of the pre-acquisition reserves of MAXIMA LT, UAB and its subsidiaries, elimination of the investment in MAXIMA LT, UAB and elimination of net assets of MAXIMA MGN, UAB.

## 17. Borrowings (except for lease liabilities)

| | 2019 | 2018 |
|---|---|---|
| **Non-current** | | |
| Bank loans | 196,578 | 178,095 |
| Bonds | 295,938 | 294,930 |
| Loans from related parties (Note 28) | - | 41,000 |
| Other borrowings | 101 | 109 |
| | 492,616 | 514,134 |
| **Current** | | |
| Bank loans | 48,741 | 54,226 |
| Bank overdrafts | 11,350 | - |
| Bonds | 2,909 | 2,909 |
| Loans from related parties (Note 28) | 41,056 | 56 |
| Other borrowings | 8 | 8 |
| | 104,065 | 57,200 |
| | **596,681** | **571,333** |

On 13 September 2018 the Group issued EUR 300 million nominal value fixed 3.25% interest rate coupon bonds. Bonds are traded at Euronext Dublin (Ireland) and Nasdaq Vilnius (Lithuania) stock exchanges. Bonds will mature on 13 September 2023. The fair value of bonds amounted to EUR 318,816 thousand as of 31 December 2019 (2018: EUR 295,617 thousand)

The bank loans as of 31 December 2019 and 2018 are secured by cash in certain bank accounts (Note 14), property, plant and equipment (Note 5), right-of-use assets (Note 6), investment property (Note 7) and inventory (Note 12).

As of 31 December, the carrying amounts of the borrowings are denominated in the following currencies:

| | 2019 | 2018 |
|---|---|---|
| EUR | 580,800 | 568,820 |
| PLN | 14,499 | 2,514 |
| BGN | 1,382 | - |
| | **596,681** | **571,333** |

The weighted average effective interest rates as of 31 December were as follows:

| | 2019 | 2018 |
|---|---|---|
| Bank loans | 1.05% | 1.16% |
| Bonds | 3.65% | 3.65% |
| Other borrowings | 0.80% | 0.80% |
| Total | 2.33% | 2.56% |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

Non-current borrowings (except for lease liabilities) are repayable as follows:

| | 2019 | 2018 |
|---|---|---|
| In the second year | 39,725 | 81,681 |
| In the third to fifth years (inclusive) | 419,528 | 406,368 |
| After five years | 33,363 | 26,085 |
| | **492,616** | **514,134** |

For undiscounted contractual future cash outflows see Note 27.1.

The undrawn borrowing facilities were as follows:

| | 2019 | 2018 |
|---|---|---|
| Expiring within one year | 64,907 | 46,365 |
| Expiring beyond one year | 6,308 | 6,610 |
| | **71,214** | **52,975** |

In accordance with the Euro Medium Term Note Program issued for bonds and the agreements signed with banks the Group must comply with various covenants. As of 31 December 2019 and 2018 the Group complied with all of them.

## 18. Trade and other payables

| | 2019 | 2018 |
|---|---|---|
| Trade payables | 555,577 | 508,924 |
| Other amounts payable for services, property, plant and equipment and intangible assets | 58,302 | 51,331 |
| Accrued expenses | 3,757 | 6,931 |
| | 617,636 | 567,186 |
| Remuneration, social security and other related taxes | 63,414 | 59,420 |
| Payable taxes, other than corporate income tax | 29,115 | 28,111 |
| Contract liabilities | 12,663 | 11,480 |
| Advances received | 3,386 | 2,610 |
| | **726,214** | **668,807** |

Contract liabilities represent the Group's liability to customers to transfer goods or services for the loyalty points received and gift cards. In 2019, the Group recognised EUR 11,480 thousand revenue that was included in the contract liability balance as of 31 December 2018 (2018: EUR 9,371 thousand).

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 19. Revenue

| | 2019 | 2018 |
|---|---|---|
| *Revenue from contracts with customers* | | |
| Retail revenue | 3,883,807 | 3,367,377 |
| Commission income | 10,190 | 9,836 |
| Wholesale revenue | 51,247 | 26,831 |
| Other | 18,940 | 18,775 |
| | 3,964,185 | 3,422,820 |
| *Other income* | | |
| Rental income | 28,955 | 28,134 |
| | 28,955 | 28,134 |
| | **3,993,140** | **3,450,953** |

## 20. Operating expenses

| | 2019 | 2018 *(restated)** |
|---|---|---|
| Employee remuneration and related taxes | 70,155 | 52,674 |
| Transportation services | 2,938 | 3,038 |
| Property, plant and equipment, intangible assets, right-of-use assets impairment charge (reversal) | 502 | (1,777) |
| Depreciation and amortisation | 19,516 | 17,556 |
| Advertising | 24,490 | 23,093 |
| Rental expenses | 999 | 4,534 |
| Utilities | 5,453 | 2,349 |
| Taxes (except for income tax) | 4,528 | 4,187 |
| Repair and maintenance | 5,462 | 3,128 |
| Other | 23,364 | 22,468 |
| | **157,408** | **131,250** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

## 21. Finance costs, net

| | 2019 | 2018 |
|---|---|---|
| Finance costs: | | |
| Interest expenses | | |
| – Bank borrowings | (4,163) | (5,425) |
| – Bonds | (10,757) | (3,207) |
| – Lease | (17,174) | (33) |
| – Other borrowings | (350) | (640) |
| | (32,444) | (9,304) |
| Other finance costs | (272) | (489) |
| Net foreign exchange gain/(loss) | (259) | (385) |
| | **(32,975)** | **(10,178)** |
| Finance income: | | |
| Interest income on net investment in the lease | 371 | - |
| Other income | 94 | 159 |
| | **465** | **159** |
| **Finance costs, net** | **(32,510)** | **(10,019)** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 22. Other gains (losses)

| | 2019 | 2018 |
|---|---|---|
| Profit from disposal of subsidiaries | 10,696 | - |
| Other | 929 | (13) |
| | **11,625** | **(13)** |

In August 2019, the Group disposed of its wholly owned subsidiaries Infinite Sp.z.o.o. (Poland) and Infinite IT Solutions Sarl. (Romania).

## 23. Income tax expense

| | 2019 | 2018 *(restated)** |
|---|---|---|
| Current tax | 35,336 | 21,831 |
| Deferred tax (Note 11) | (9,321) | 2,233 |
| **Income tax expense** | **26,015** | **24,064** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

The total income tax charge can be reconciled to the accounting profit before tax as follows:

| | 2019 | 2018 *(restated)** |
|---|---|---|
| Profit before income tax | 155,150 | 140,379 |
| Tax at domestic tax rate of 15% (2018: 15%) | 23,272 | 21,057 |
| Income not subject to tax | (1,184) | (1,453) |
| Expenses not deductible for tax purposes | 6,102 | 5,222 |
| Tax losses for which no deferred income tax was recognised | 43 | 3,082 |
| Utilisation of previously unrecognised tax losses | (131) | (75) |
| Tax incentives (charity, etc) | (571) | (467) |
| Adjustments in respect of prior year | 1 | 790 |
| Effect of different tax rates of foreign subsidiaries | (2,159) | (4,079) |
| Other | 641 | (13) |
| **Income tax expense** | **26,015** | **24,064** |
| Effective income tax rate | 17% | 17% |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

## 24. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The Company's basic and diluted earnings per share are equal. Calculation of basic/diluted earnings per share is presented below:

| | **2019** | **2018** *(restated)** |
|---|---|---|
| Profit attributable to ordinary equity holders of the parent (EUR thousand) | 129,135 | 116,315 |
| Weighted average number of ordinary shares (in thousands) | 3,514,699 | 3,514,699 |
| Basic/diluted earnings per share (EUR/share) | **0.037** | **0.033** |

** See Note 31 for details about restatement as a result of completed accounting for business combination*

## 25. Dividends per share

Dividends declared in 2019 and 2018 amounted to EUR 82,000 thousand (EUR 0.02 per share) and EUR 90,000 thousand (EUR 0.03 per share), respectively.

## 26. Business combinations

***Acquisitions in 2019***

There were no significant acquisitions in 2019.

***Acquisitions in 2018***

<u>Sano Sp.z.o.o.</u>

In December 2018, the Group acquired 100% of shares of Sano Sp.z.o.o., a retail operator in Poland. Shares were acquired from related party for the purchase consideration that was determined by independent valuers. Sano Sp.z.o.o. was acquired in order to further strengthen the Group's operations in Poland.

The net assets recognised in 31 December 2018 consolidated financial statements were based on a provisional assessment. The following table summarises provisional amounts recognised in 31 December 2018 consolidated financial statements and final amounts included in these consolidated financial statements:

*(All tabular amounts are in EUR thousands unless otherwise stated)*

| | As per originally presented | Fair value adjustments | Restated |
|---|---|---|---|
| **Purchase consideration** | | | |
| Cash | 15,400 | - | 15,400 |
| **Total purchase consideration** | **15,400** | **-** | **15,400** |
| | | | |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | | | |
| Property, plant and equipment | 3,165 | 835 | 4,000 |
| Intangible assets (except for goodwill) | 32 | 4,206 | 4,238 |
| Deferred tax assets | 44 | | 44 |
| Inventories | 5,584 | 49 | 5,633 |
| Non-current receivables and prepayments | 171 | | 171 |
| Trade and other receivables, prepayments and other short-term financial assets | 682 | | 682 |
| Cash and cash equivalents | 467 | | 467 |
| Borrowings | (1,272) | | (1,272) |
| Deferred tax liability | (28) | (967) | (995) |
| Trade payables and other payables | (7,901) | | (7,901) |
| **Total identifiable net assets** | **944** | **4,123** | **5,067** |
| | | | |
| **Goodwill** | **14,456** | **(4,123)** | **10,333** |

SANO Sp.z.o.o. was consolidated since 1 December 2018. Since acquisition it contributed revenue of EUR 6,975 thousand and incurred net loss of EUR 248 thousand which was included in the consolidated financial statements of the Group for the year ended 31 December 2018.

Sano Marketing Sp.z.o.o

In December 2018, the Group acquired 100% of shares of Sano Marketing Sp.z.o.o., an entity involved in development and management of real estate for retail operations in Poland. Shares were acquired from related party for the purchase consideration that was determined by independent valuers. The Group acquired Sano Marketing Sp.z.o.o. in order to obtain ownership of real estate in which Sano Sp.z.o.o. retail stores were operating.

The fair value of purchase consideration and fair value of acquired identifiable assets and liabilities of Sano Marketing Sp.z.o.o. are provided below:

| | |
|---|---|
| **Purchase consideration** | |
| Cash | 7,157 |
| **Total purchase consideration** | **7,157** |
| | |
| **Recognised amounts of identifiable assets acquired and liabilities assumed (at fair value)** | |
| Property, plant and equipment | 9,720 |
| Trade receivables | 340 |
| Other receivables | 33 |
| Cash and cash equivalents | 241 |
| Borrowings | (2,092) |
| Deferred tax liability | (712) |
| Trade payables and other current liabilities | (150) |
| **Total identifiable net assets** | **7,380** |
| | |
| **(Gain) from bargain purchase** | **(223)** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

Gain from bargain purchase was recognised in other gains (losses) in the statement of comprehensive income. Transaction resulted in a gain mainly because of repayment of loan to the bank before the transaction.

The fair value of acquired receivables amounted to EUR 340 thousand, the gross amount was EUR 344 thousand and it was expected that amounts equal to fair value will be collected.

SANO Marketing Sp.z.o.o. was consolidated since 1 December 2018. Since acquisition it contributed EUR 3 thousand revenue and incurred net loss of EUR 194 thousand which was included in the consolidated financial statements of the Group for the year ended 31 December 2018.

Emperia Holding S.A.

In April 2018, the Group acquired 94% of shares of Emperia Holding S.A., a company listed in the Warsaw stock exchange (Poland) (3% of Emperia Holding S.A. shares were owned by its wholly owned subsidiary). In May 2018, the Group acquired the remaining 3% of shares from minority shareholders. The right to buy out the remaining shares from minority shareholders is provided in the relevant Polish legislation that regulates both the procedure and the pricing rules. In August 2018, shares of Emperia Holding S.A. were delisted from the Warsaw stock exchange.

Emperia Holding S.A. major subsidiaries are Stokrotka Sp.z.o.o. which operates “Stokrotka” retail chain in Poland, Elpro Development S.A., a property company that develops its own facilities for retail operations, which are leased to Stokrotka and external tenants, and Infinite Sp.z.o.o., an IT company responsible for a substantial part of the Emperia Group's IT solutions, providing IT services and delivering IT equipment for the Emperia Group. Infinite Sp. z o.o. also develops IT solutions for external entities in industries. The Group acquired Emperia Holding S.A. in order to increase its exposure to the Polish retail market as part of its strategic plan.

The fair value of purchase consideration and fair value of acquired identifiable assets and liabilities of Emperia Holding S.A. are provided below:

| | |
|---|---|
| **Purchase consideration** | |
| Cash | 282,578 |
| **Total purchase consideration** | **282,578** |
| | |
| **Recognised amounts of identifiable assets acquired and liabilities assumed (at fair value)** | |
| Property, plant and equipment | 146,736 |
| Investment properties | 14,348 |
| Intangible assets | 68,933 |
| Non-current receivables and prepayments | 6,823 |
| Deferred tax assets | 4,754 |
| Inventories | 54,343 |
| Trade receivables | 9,407 |
| Other receivables | 5,997 |
| Cash and cash equivalents | 31,864 |
| Other non-current liabilities | (1,971) |
| Deferred tax liabilities | (18,180) |
| Trade payables and other current liabilities | (97,573) |
| **Total identifiable net assets** | **225,481** |
| | |
| **Goodwill** | **57,097** |

The goodwill is made up of expected synergies from combining retail operations in Poland and Baltics and going concern element of the acquired business, e.g. assembled workforce, know-how, etc. Goodwill will not be deductible for tax purposes. Acquisition costs amounted to EUR 3,189 thousand.

The fair value of acquired receivables amounted to EUR 9,407 thousand, the gross amount was EUR 11,567 thousand and it was expected that amounts equal to fair value will be collected.

Emperia Holding S.A. group was consolidated since 1 May 2018 and contributed EUR 466,101 thousand revenue and EUR 4,819 thousand net profit to the consolidated financial statements of the Group for the year ended 31 December 2018 since acquisition.

If the above business combinations had taken place at the beginning of the year, the Group's revenue would have been increased by EUR 280,210 thousand and net profit for the Group would have been decreased by EUR 1,347 thousand for the year ended 31 December 2018.

## 27. Financial risk management

### 27.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

*a) Market risk*

Foreign currency exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to USD due to purchasing of goods in foreign countries while income is mostly denominated in euro. The potential adverse effect from foreign exchange risk is substantially diminished, because the Group companies use foreign currency policies for the management of open currency exposure by currency acquisitions. In 2019 and 2018, the Group was using derivative financial instruments to be able to hedge its risks arising from foreign currency fluctuations ("forwards").

Carrying amounts of borrowings by currencies are disclosed in Note 17.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. The Group is exposed to cash flow interest rate risk as some of the Group's borrowings are subject to floating interest rates related to EURIBOR. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps or borrowing at fixed rates directly. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

The Group's borrowings with variable interest rates amounted to EUR 83,236 thousand as of 31 December 2019 (2018: EUR 82,552 thousand) with repricing periods between 1 - 6 months (2018: 1 - 6 months). The remaining borrowings are with fixed interest rates. Fair value of bonds is disclosed in Note 17, fair value of other borrowings approximates their carrying value. The Group estimates that the increase / decrease of variable interest rates by 50 basis points, applied to exposed amounts as of 31 December 2019 and with all other variables held constant, would result in an increase / decrease in interest expense of EUR 128 thousand and EUR 18 thousand, respectively (2018: EUR 207 thousand and nil, respectively).

*b) Credit risk*

The Group's credit risk arises from its trade and other receivable, contract assets, cash and cash equivalents, cash security deposits at banks, time deposits and loans granted. The management considers that the Group's maximum exposure to credit risk is reflected by the carrying amount of the financial assets at the reporting date.

The credit risk of liquid funds (cash and cash equivalents, time and other deposits at banks) is limited because the counterparties are banks with investment credit ratings assigned by international credit-ratings agencies or subsidiaries of such banks. Sales to retail customers are settled in cash or using credit cards. The management does not expect any material losses from non-performance of the Group's counterparties.

The Group monitors creditworthiness of debtors by using controls that include credit approvals, limits, prepayment requirements and other monitoring procedures. Each Group's entity is responsible for managing and analysing credit risk for each if its new clients.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

The amounts presented in the consolidated statement of financial position are net of allowances for doubtful amounts estimated. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, type of service, collateral received). Some of the Group's accounts receivable are secured by pledged inventory and real estate and bank guarantees. The Group's accounts receivable secured by collateral amounted to EUR 1,662 thousand as of 31 December 2019 (2018: EUR 9,569 thousand). A loss allowance has not been recognised for the amount of accounts receivable covered by collateral. Collateral obtained by the Group resulted in a decrease in the expected credit losses of EUR 9 thousand as of 31 December 2019 (2018: EUR 195 thousand).

Set out below is the information about the credit risk exposure on the Group's trade and other receivables, contract assets and cash and cash equivalents using provision matrix:

31 December 2019

| | **Current** | **1-30 days past due** | **31-90 days past due** | **>90 days past due** | **Total** |
|---|---|---|---|---|---|
| Expected credit loss rate | 0.1%-1% | 0.5%-8% | 7%-50% | 100% | |
| Gross carrying amount-receivables from non-related parties | 42,496 | 6,298 | 1,009 | 3,415 | 53,219 |
| Gross carrying amount-receivables from related parties | 4,696 | 50 | 164 | 2 | 4,913 |
| Contract assets | 3,377 | - | - | 427 | 3,804 |
| Cash and cash equivalents | 272,909 | - | - | - | 272,909 |
| Expected credit loss | (87) | (181) | (248) | (3,202) | (3,718) |
| | **323,391** | **6,167** | **925** | **643** | **331,126** |

**31 December 2018**

| | **Current** | **1-30 days past due** | **31-90 days past due** | **>90 days past due** | **Total** |
|---|---|---|---|---|---|
| Expected credit loss rate | 0.1%-5% | 0.5%-8% | 0.5%-50% | 100% | |
| Gross carrying amount-receivables from non-related parties | 45,163 | 3,519 | 534 | 2,695 | 51,912 |
| Gross carrying amount-receivables from related parties | 594 | 257 | - | 9 | 859 |
| Contract assets | 3,821 | - | - | - | 3,821 |
| Cash and cash equivalents | 222,067 | - | - | - | 222,067 |
| Expected credit loss | (45) | (140) | (164) | (2,695) | (3,044) |
| | **271,600** | **3,636** | **370** | **9** | **275,616** |

*c) Liquidity risk*

The Group is exposed to liquidity risk due to different maturity profiles of receivables and payables. Major amount of operating cash is collected from retail customers, therefore the Group does not have significant amount of trade receivables while payables to suppliers outstanding as of 31 December 2019 had weighted average payment term of 45 days.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding. The management believes that the Group will have sufficient cash resources through earning cash from operating activities and utilising undrawn credit facilities from various banks (Note 17). In order to manage short term liquidity risks the Group targets to increase average credit portfolio maturity with longer term credit agreements.

The following is the contractual maturity analysis of the Group's non-derivative financial liabilities. The analysis is based on undiscounted cash flows, accounting the earliest date on which the Group can be required to pay. Floating interest rates are estimated using the prevailing interest rates at the reporting date.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

| | 2019 | | | | |
|---|---|---|---|---|---|
| | **Borrowings from banks and bonds** | **Lease liabilities** | **Borrowings from related and other companies** | **Other financial liabilities** | **Total** |
| In the first year | 63,001 | 105,927 | 41,064 | 617,932 | 827,924 |
| In the second year | 39,717 | 99,382 | 8 | 176 | 139,283 |
| In the third year | 56,589 | 93,522 | 8 | 368 | 150,487 |
| In the fourth year | 335,560 | 84,703 | 8 | 499 | 420,770 |
| In the fifth year | 27,352 | 74,211 | 8 | 331 | 101,902 |
| After five years | 33,296 | 361,490 | 67 | 496 | 395,350 |
| | **555,515** | **819,235** | **41,165** | **619,802** | **2,035,717** |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Borrowings from banks and bonds** | **Lease liabilities** | **Borrowings from related and other companies** | **Other financial liabilities** | **Total** |
| In the first year | 65,439 | 752 | 341 | 567,374 | 633,905 |
| In the second year | 52,239 | 667 | 41,202 | 235 | 94,343 |
| In the third year | 43,008 | 452 | 8 | 9 | 43,476 |
| In the fourth year | 60,247 | 138 | 8 | 53 | 60,447 |
| In the fifth year | 341,292 | - | 8 | 264 | 341,564 |
| After five years | 26,204 | - | 75 | 444 | 26,723 |
| | **588,428** | **2,008** | **41,642** | **568,379** | **1,200,458** |

### 27.2. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The capital management strategy aims to continually optimise its financial structure by maintaining an optimum balance between net debt and EBITDA also equity and total assets in order to minimise the cost of capital and maintain the Group’s credit rating at a level that allows it to access a wide range of financing sources and instruments.

The Group’s equity is comprised of issued share capital, share premium, legal reserve, reverse acquisition reserve, foreign currency translation reserve and retained earnings attributable to equity holders. Management's focus is to ensure the Group companies have sufficient equity capital to comply with capital adequacy ratios, the minimum capital rules set by local legislation and meet covenants set in bank credit agreements and Euro Medium Term Note Programme Prospectus.

### 27.3. Fair value of financial instruments

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Valuations are performed by the Group's management at each reporting date. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of asset or liability and the level of the fair value hierarchy as explained above.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade and other receivables, contract assets, current trade and other payables, short-term loans granted and current borrowings approximates their fair value (level 3).
- The fair value of non-current debt, except for bonds, is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (level 3).
- The fair value of bonds is based on quoted market price (level 1) (Note 17).

## 28. Related party transactions

Relates parties below include the Group's parent Uzdaroji Akcine Bendrove Vilniaus Prekyba and other related parties that are entities controlled by the Group's ultimate controlling party. The ultimate controlling party of the Group is Mr. N. Numa.

*a) Sales and purchases of goods and services and property, plant and equipment*

The following transactions were carried out with related parties:

| | 2019 | 2018 |
|---|---|---|
| **Sales of goods and services:** | | |
| Sales of goods to other related parties | 1,211 | 1,498 |
| Sales of services to other related parties | 8,092 | 9,097 |
| | **9,303** | **10,595** |

Sales of services to related parties include mostly rent services, commission income.

| | 2019 | 2018 |
|---|---|---|
| **Purchases of goods and services:** | | |
| Purchases of goods from other related parties | 5,187 | 3,249 |
| Purchases of services from parent company | 973 | 1,197 |
| Purchases of services from other related parties | 15,492 | 15,756 |
| | **21,653** | **20,202** |

Purchases of goods and services from related parties include mostly purchased goods for resale, consulting services, rental and utilities services.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

| | 2019 | 2018 |
|---|---|---|
| **Sales of property, plant and equipment to:** | | |
| Other related parties | 5,506 | - |
| | **5,506** | **-** |

| | 2019 | 2018 |
|---|---|---|
| **Purchases of property, plant and equipment from:** | | |
| Other related parties | 676 | 449 |
| | **676** | **449** |

b) *Year-end balances arising from sales/purchases of goods/services*

| | 2019 | 2018 |
|---|---|---|
| **Non-current receivables and prepayments:** | | |
| Other related parties | 4,630 | - |
| | **4,630** | **-** |

Non-current receivables and prepayments include net investment in the lease recognised for the sublease of premises to related parties.

| | 2019 | 2018 |
|---|---|---|
| **Trade and other receivables, prepayments and other short-term financial assets from:** | | |
| Trade and other receivables - other related parties | 4,913 | 859 |
| Current year portion of net investment in the lease - other related parties | 1,262 | - |
| | **6,175** | **859** |

| | 2019 | 2018 |
|---|---|---|
| **Trade and other payables to:** | | |
| Parent company | 84 | 139 |
| Other related parties | 5,981 | 4,438 |
| | **6,065** | **4,577** |

c) *Borrowings*

| | 2019 | 2018 |
|---|---|---|
| **Non-current borrowings:** | | |
| Loans from other related parties | - | 41,000 |
| Lease liabilities to other related parties | 101,745 | - |
| | **101,745** | **41,000** |

| | 2019 | 2018 |
|---|---|---|
| **Current borrowings:** | | |
| Loans from other related parties | 41,056 | 56 |
| Lease liabilities to other related parties | 11,421 | - |
| | **52,476** | **56** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

*d) Finance income/costs*

| | 2019 | 2018 |
|---|---|---|
| **Interest expenses to:** | | |
| Other related parties | 2,261 | 582 |
| | **2,261** | **582** |

Loans borrowed from related parties are unsecured and their weighted average interest rate as of 31 December 2019 was 0.8% (2018: 0.8%).

| | 2019 | 2018 |
|---|---|---|
| **Interest income from:** | | |
| Other related parties | 94 | - |
| | **94** | **-** |

Interest income is earned on net investment in the lease to related parties.

*e) Key management compensation*

| | 2019 | 2018 |
|---|---|---|
| Salaries including related taxes | 1,829 | 902 |
| Termination benefits | 317 | - |
| Payment of long term employee benefits | 2,088 | - |
| (Release) of provision for long term employee benefits | (39) | (1,177) |

## 29. Cash flow information

### *29.1. Non-cash investing and financing activities*

Non-cash investing and financing activities in 2019 are provided below:
- Additions to right-of-use assets and lease liabilities amounted to EUR 103,860 thousand (Note 6).
- Lease liability remeasurements amounted to EUR 35,759 thousand.

Non-cash investing and financing activities in 2018 are provided below:
- In 2018 the Group used EUR 185,000 thousand cash security deposit held at bank as of 31 December 2017 for the partly payment for shares of Emperia Holding S.A..

### *29.2. Changes in liabilities arising from financing activities*

The below table summarises changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes during the year ended 31 December 2019 and 2018:

| | 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at 31 December 2018 | Recognised on adoption of IFRS16 (Note 31) | Dividends declared | Cash received | Cash paid | Disposal of subsidiary | Increase in lease liabilities | Interest expenses | Interest paid | Other | Balance at 31 December 2019 |
| Borrowings, excl. bank overdrafts | 571,334 | - | - | 72,355 | (59,501) | - | - | 15,270 | (14,263) | 137 | 585,332 |
| Lease liabilities | 1,954 | 632,273 | - | - | (102,448) | (713) | 139,655 | 17,174 | - | | 687,894 |
| Dividend payable | - | - | 82,000 | - | (82,000) | - | , | - | - | - | - |
| **Total liabilities arising from financing activities** | **573,288** | **632,273** | **82,000** | **72,355** | **(243,949)** | **(713)** | **139,655** | **32,444** | **(14,263)** | **137** | **1,273,226** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

| | 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at 31 December 2017 | Dividends declared | Cash received | Cash paid | Acquisition of subsidiary | Increase in lease liabilities | Interest expenses | Interest paid | Other | Balance at 31 December 2018 |
| Borrowings, excl. bank overdrafts | 422,735 | - | 657,860 | (513,755) | 3,364 | - | 9,273 | (6,143) | (2,000) | 571,334 |
| Lease liabilities | 1,588 | | | (781) | | 1,116 | 31 | - | - | 1,954 |
| Dividend payable | - | 90,000 | - | (90,000) | - | - | - | - | - | - |
| **Total liabilities arising from financing activities** | **424,323** | **90,000** | **657,860** | **(604,536)** | **3,364** | **1,116** | **9,304** | **(6,143)** | **(2,000)** | **573,288** |

## 30. Contingent liabilities

*Civil proceedings relating to collapse of store roof in Riga, Latvia*

As of the date of the approval of these consolidated financial statements, Maxima Latvija SIA remained involved in one legal proceeding relating to the collapse of parts of the roof of the trade centre "Maxima XX" located in Priedaines iela 20, Riga, Latvia, which occurred on 21 November 2013, with a claim amount of EUR 100 thousand (31 December 2018: four legal proceedings with a total aggregate claim amount of EUR 72 million). The case is yet to be heard in the court of first instance. In 2019, and up to the date of the approval of these consolidated financial statements, Maxima Latvija SIA entered into mutual agreements with claimants in three legal proceedings. Total compensations to claimants amounted to EUR 117 thousand.

Separately, an employee of Maxima Latvija SIA (who was responsible for labour safety in the aforementioned store) was participating as defendant in a criminal case initiated based on breach of labour safety rules. Maxima Latvija SIA could theoretically be held liable in criminal proceedings if the court found that the employee (i) was guilty of alleged irregularities and (ii) the employee was acting in accordance with Maxima Latvija SIA instructions. According to official expert findings, the collapse was due to inadequate design and not due to employee violations, and therefore, in the view of Maxima Latvija SIA management, there were no causal relationship between the collapse of the roof and the alleged violations of the Maxima Latvija SIA employee. Decision of the court of first instance was delivered on 18 February 2020. The court acquitted the employee of Maxima Latvija SIA. Decision of the court might be appealed within 20 days after delivery of the full decision, which is scheduled for 16 November 2020.

Based on the outcome of legal proceedings that have been concluded to date, compensation awards granted in previous comparable cases and settlement agreements that have already been reached or are expected to be reached with claimants, the Group believes that liabilities relating to the above ongoing proceedings would not, individually or in the aggregate, require additional accruals or provisions to be recorded as of 31 December 2019.

*Corporate income tax case in Poland*

The Group is involved in an ongoing tax dispute with the Polish tax authorities relating to Emperia Holding S.A. corporate income tax liability for the fiscal year ended 31 December 2011. In 2010, Emperia Holding S.A. established P1 sp. z o.o. ("P1"), a 100 per cent owned subsidiary and, in 2011, it made an in-kind contribution to P1 of the shares of certain of its distribution company subsidiaries (the "Emperia Subsidiaries") (which was treated as tax neutral step by Emperia Holding S.A.). At the end of 2011, Emperia Holding S.A. disposed of its shares in the Emperia Subsidiaries for a lower price than the valuation assigned to the shares at the time of the contribution in kind.

In 2011, P1's share capital was reduced through the compulsory redemption of 13,200,000 shares with an aggregate nominal value of PLN 1,320,000,000 (the "P1 Redemption"). Emperia Holding S.A. received remuneration for the redemption of its P1 shares which was treated as tax exempt dividend-type income since Emperia Holding S.A. had held 100 percent of P1's shares for a period exceeding two years.

On 25 January 2017, the Head of the Tax Audit Office in Lublin (the "authority of first instance") determined that Emperia Holding's corporate income tax liability for the 2011 fiscal year was PLN 142,463,805 greater (excluding default interest) than the amount disclosed in its CIT–8 return for the year (the "Shortfall"). The authority of first instance concluded that the P1 Redemption was voluntary rather than compulsory in nature and, therefore, the tax payable in connection with the P1 Redemption should be assessed accordingly. Emperia Holding S.A. disagreed with the findings and legal assessment by the authority of first instance and appealed to the authority of second instance (Dyrektor Izby Administracji Skarbowej w Warszawie) with a request to repeal the decision and discontinue proceedings, although the authority rejected such request and upheld the first instance findings on 8 August 2017.

Emperia Holding S.A. has subsequently filed a complaint to the Administrative Court in Warsaw (Wojewódzki Sąd Administracyjny w Warszawie), requesting the annulment of both first and second instance decisions. On 17 July 2018 the court of first instance annulled the decision of the second instance tax authority. The court held that the case should ultimately be resolved by the tax authority of the second instance, however, such tax authority must take into account certain considerations espoused by the court during its ruling. Management believes that this is beneficial for Emperia Holding in the context of the eventual outcome of the case. On 28 November 2018, the Director of the Tax Administration Chamber in Warsaw filed a cassation complaint with the Supreme Administrative Court.

On 25 July 2019, the Supreme Administrative Court annulled the judgement of the Provincial Administrative Court and remitted the case for reconsideration to the Provincial Administrative Court in Warsaw which on 20 November 2019 adopted favourable judgement to Emperia Holding S.A. – annulled the tax decisions of both instances and discontinued the tax proceedings.

On 19 February 2020 the Director of the Tax Chamber filed a cassation complaint to the Supreme Administrative Court.The case is currently pending before the Supreme Administrative Court.

Whilst resolution of the matter is pending, Emperia Holding S.A. has provided the tax authorities with collateral securing the Shortfall, together with default interest, in the form of a bank guarantee up to a maximum of PLN 200 million.

The management believes that the final outcome of the court will be beneficial to the Group, therefore no provision was formed in the consolidated financial statements as of 31 December 2019.

*Pollution tax*

The Environment Protection Department of Vilnius region ("EPDVR") has cancelled packaging waste management certificates for the years 2013 - 2015 issued by Metrail UAB for the organisation of producers and importers VŠĮ „Žaliasis taškas" and also the certificates issued by VŠĮ „Žaliasis taškas" to its producers and importers. These certificates were cancelled because an investigation performed by the environmental authorities found that Metrail UAB improperly managed the metal and plastic packaging and issued faulty certificates. These certificates were issued to importers and producers and on the basis of these certificates the importers and producers were exempted from a pollution tax.

Moreover, EPDVR executed a tax audit and on 27 February 2019 issued a tax audit act according to which MAXIMA LT, UAB has to pay the pollution tax in the amount of EUR 1,906 thousand (for years 2013 – 2015 in total). MAXIMA LT, UAB disagrees with this and on 26 March 2019 submitted a claim to court regarding this tax audit act. On 26 June 2019, the case was suspended until the examination of another case.

Certain business organisations, including VŠĮ „Žaliasis taškas" are conducting negotiations with EPDVR and Ministry of Environment of the Republic of Lithuania and are seeking to conclude a settlement.

If the parties do not reach a settlement agreement, Maxima LT, UAB intends to dispute the duty to pay the pollution tax in court. The obligation to pay the pollution tax will be suspended while the court procedures are ongoing.

Based on management judgement, it is more likely than not, that MAXIMA LT, UAB will not have to pay pollution tax or other payments related to the above described issue. Therefore, no provision is recognised by the Group in these consolidated financial statements for the year ended 31 December 2019.

## 31. Changes in accounting policies and restatements of comparative numbers

***Adoption of IFRS 16 Leases***

The Group has adopted IFRS 16 from 1 January 2019 using modified retrospective method. Comparatives for the 2018 reporting period have not been restated, as permitted under the transitional provisions in the standard. As a result, the data presented for 2019 and 2018 is not comparable. Adoption of IFRS 16 had no effect on the Group's future cash outflows, but resulted in increase in the Group's total assets and liabilities. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease as of 1 January 2019. Instead, the Group applied the new standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

*The Group as a lessee*

The Group (as lessee) has lease contracts for land, buildings, vehicles and equipment. Before the adoption of IFRS 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased assets were not capitalised and the lease payments were recognised as rent expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent was recognised under non-current receivables and prepayments in the consolidated statement of financial position.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

<u>Leases previously classified as finance leases</u>

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.

<u>Leases previously accounted for as operating leases</u>

The Group recognised right-of-use assets and lease liabilities for all leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid lease payments. 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 weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.38%.

<u>Subleases</u>

The Group assessed classification of a sublease as a finance lease or an operating lease with reference to the right-of-use asset arising from the head lease. When subleases were classified as finance leases the Group presented net investment in the lease under non-current receivables and prepayments in the consolidated statement of financial position.

*(All tabular amounts are in EUR thousands unless otherwise stated)*

Practical expedients

The Group applied the available practical expedients:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on previous assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

*The Group as a lessor*

Lessor accounting was not changed.

The effect of adoption of IFRS 16 on the consolidated statement of financial position as of 1 January 2019 (increase/(decrease)) is as follows:

| | **At 1 January 2019** |
|---|---|
| **Assets** | |
| Right-of-use assets | 648,785 |
| Property, plant and equipment | (1,629) |
| Intangible assets | (22,624) |
| Non-current receivables and prepayments | 7,009 |
| **Total assets** | **631,541** |
| | |
| **Non-current liabilities** | |
| Borrowings (except for lease liabilities) | (1,232) |
| Lease liabilities | 552,758 |
| | 551,526 |
| **Current liabilities** | |
| Borrowings (except for lease liabilities) | (722) |
| Lease liabilities | 81,469 |
| Trade and other payables | (732) |
| | 80,015 |
| **Total liabilities** | **631,541** |

As of 1 January 2019:
- Right-of-use assets of EUR 636,026 thousand were recognised and presented separately in the statement of financial position. The leased assets previously recognised under finance leases of EUR 1,629 thousand were reclassified from property, plant and equipment to right-of-use assets. Intangible assets of EUR 22,624 thousand relating to lease contracts in favourable locations were reclassified from intangible assets to right-of-use assets.
- Additional lease liabilities of EUR 636,026 thousand were recognised and presented separately under lease liabilities in the statement of financial position. Liabilities of EUR 1,954 thousand previously recognised under finance leases were reclassified from borrowings to lease liabilities in the statement of financial position.
- Prepayments of EUR 3,753 thousand related to previous operating leases were derecognised.
- Right-of-use assets were adjusted by the provision for onerous leases of EUR 732 thousand.
- Right-of-use assets were derecognised and net investment in the lease of EUR 10,762 thousand was recognised for subleases classified as finance leases (included in non-current receivables and prepayments).

*(All tabular amounts are in EUR thousands unless otherwise stated)*

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

| | At 1 January 2019 |
|---|---|
| Operating lease commitments as of 31 December 2018 | 755,428 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 672,331 |
| (Less): short-term leases not recognised as a liability | (307) |
| (Less): low-value leases not recognised as a liability | (4,275) |
| Add: adjustments as a result of a different treatment of extension and termination options | (33,729) |
| Add: adjustments relating to changes in the index or rate affecting variable payments | 2,458 |
| Add: finance lease liabilities recognised as of 31 December 2018 | 1,958 |
| (Less): prepayments related to previous operating leases | (4,208) |
| **Lease liability recognised as of 1 January 2019** | **634,227** |

***Completed accounting for business combination***

During the year ended 31 December 2019 the Group completed accounting for business combination with Sano Sp.z.o.o. (Note 26). As a result, comparative numbers in the consolidated statement of financial position were adjusted. The below disclosure shows the adjustments recognised for each individual line item in the consolidated statement of financial position. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

**Consolidated statement of financial position (extract)**

| | 31 December 2018 As originally presented | Completed accounting for business combination | 31 December 2018 *(restated)* |
|---|---|---|---|
| **ASSETS** | | (Note 26) | |
| **Non-current assets** | | | |
| Property, plant and equipment | 625,777 | 758 | 626,535 |
| Intangible assets (except for goodwill) | 90,237 | 3,802 | 94,039 |
| Goodwill | 216,246 | (4,148) | 212,098 |
| **Total non-current assets** | **960,422** | **410** | **960,832** |
| **Current assets** | | | |
| Inventories | 311,232 | - | 311,232 |
| **Total current assets** | **602,586** | **-** | **602,586** |
| **TOTAL ASSETS** | **1,563,008** | **410** | **1,563,418** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Foreign currency translation reserve | (12,900) | (36) | (12,936) |
| Retained earnings | 644,333 | (419) | 643,914 |
| **Total equity** | **292,879** | **(455)** | **292,424** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 23,665 | 866 | 24,531 |
| **Total non-current liabilities** | **542,977** | **866** | **543,843** |
| **Current liabilities** | | | |
| **Total current liabilities** | **727,151** | **-** | **727,151** |
| **Total liabilities** | **1,270,128** | **866** | **1,270,994** |
| **TOTAL EQUITY AND LIABILITIES** | **1,563,008** | **410** | **1,563,418** |

*(All tabular amounts are in EUR thousands unless otherwise stated)*

## 32. Events after the reporting period

Late in 2019 news first emerged from China about the COVID-19 (coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event.

The coronavirus situation continues to evolve however full impact of COVID-19 to the business of the Group is still unknown. The management of the Group is monitoring the situation on daily basis and is adjusting business operations locally as needed. The management is in close communication with local state institutions and is following official guidelines.

Firstly, the Group is taking preventive measures to keep its stores clean and maintain a safe environment in all the geographies the Group operates.

Secondly, being one of the largest employers in the Baltics, the Group takes health of its employees very seriously – any store employee who is not feeling well stays at home, moreover, majority of office associates are working remotely.

Thirdly, the Group is monitoring the impact of coronavirus to its supply chain. Currently supply chain is operating more slowly than usual, thus resulting in temporary out of shelves in the stores. However, the management of the Group believes that the impact on the performance of the Group is not significant.

Fourthly, the management believes that liquidity position of the Group is adequate and the Group's business exhibits strong resilience and has enough flexibility to absorb the effects of coronavirus implications and global economy recession, if any.

Last but not the least, the Group is quickly adapting and reacting to coronavirus situation with its e-commerce channel (Barbora). Recently Barbora launched nationwide pick up service in Lithuania (38 additional locations) and is expecting to roll out such pick up model in Latvia and Estonia in April 2020.

As the situation is still developing, management considers it impracticable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

There have been no other significant events after the reporting period.

# Appendix 1
# NASDAQ STRUCTURED TABLE FOR DISCLOSURE

MAXIMA GRUPĖ, UAB (the Company), acting in compliance with paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius (the Code) as well as its specific provisions or recommendations. In case of non-compliance with the provisions or recommendations of this Code, we specify it along with the reasons for such non-compliance. In addition, we provide other explanatory information in this form.

## SUMMARY OF THE CORPORATE GOVERNANCE REPORT

The Company's bodies, as per its articles of association, are the general meeting of shareholders, the supervisory board, the management board (the Board), and the chief executive officer as a one-person management body. The general meeting of shareholders elects the supervisory board, which is composed of five members elected for a term of four years. As of MAXIMA GRUPĖ's annual report's (the Report) date of signing, the supervisory board comprised of 3 members. The Board is a collegial management body with eight members whom the supervisory board elects for a four-year period. As of this Report's date of signing, the Board is comprised of 7 members.

A standing audit committee reporting to the supervisory board is also formed in the Company. It is composed of three members who are elected by the supervisory board for a term of four years. There are two independent members on the audit committee (including the chairman). The audit committee's functions are established by legal acts of the Republic of Lithuania and the Bank of Lithuania as well as the audit committee regulations approved by the Company's supervisory board.

Additional information about the Company's governance, shareholders' rights, the Board and audit committee activities, the composition of the supervisory board and the Board, internal control and risk management systems, and other essential matters related to the Company's governance is provided in the Company's consolidated annual report for the financial year ended 31 December 2019.

## STRUCTURED TABLE FOR DISCLOSURE:

| PRINCIPLES/ RECOMMENDATIONS | YES/NO/ NOT APPLICABLE | COMMENTS |
|---|---|---|
| **Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights**<br>The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders. | | |
| 1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed. | Not applicable | The Company has sole shareholder. |
| 1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders. | Yes | All the Company's shares provide the same voting, ownership, dividend and other rights. |
| 1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Not applicable | The Company publicly offers only bonds. |
| 1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders. | No | The Company's general meeting of the shareholders has the competence envisaged in the Law on Companies.<br><br>The Company's articles of association do not require shareholders' approval for transactions that are conducted.<br><br>Thus, exclusive transactions that are particularly important to the Company are not subject to approval of the general meeting of shareholders of the Company. The decision to deviate from this recommendation was adopted by the shareholder of the Company when the Articles of Association were approved.<br><br>Given that the Company has one sole shareholder, granting such competence to the shareholders meeting is not relevant. |

| | | |
|---|---|---|
| 1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest. | Not applicable | The Company has one sole shareholder. |
| 1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed. | Not applicable | The Company has one sole shareholder and there are no shareholders living abroad. |
| 1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | The Company has one sole shareholder who is able to exercise the right to vote at the general meeting of shareholders through a proxy who is duly authorized or with whom an agreement on the transfer of voting rights has been concluded in the manner established by law. |
| 1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person. | Not applicable | The Company has one sole shareholder. |

| | | |
|---|---|---|
| 1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided. | Yes | Every candidate to a collegial body must declare what positions they hold where, and how their other activities are related to the Company and to other persons associated with the Company, as well as his/her educational background and work experience.<br><br>Information on proposed audit company is also provided to the shareholder prior to adoption of the decision of the sole shareholder. |
| 1.10. Members of the company's collegial management body, heads of the administration or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders. | Yes | When needed, members of the Company's collegial body, heads of the administration, and other competent persons related to the Company who can provide information related to the agenda of the general meeting of shareholders participate in the general meeting of the shareholders.<br><br>Proposed candidates to member of the collegial body participate in the general meeting of the shareholders in case the election of new members is included into the agenda of the general meeting of the shareholders. |

## Principle 2: Supervisory Board

### 2.1. Functions and liability of the supervisory board

The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.

The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.

| | | |
|---|---|---|
| 2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare. | Yes | To the best of the Company's knowledge, all the members of the supervisory board act in good faith and with care and responsibility on behalf of the Company and its shareholders, and represent their interests, having regard also for employees' interests and the public welfare. |

| | | |
|---|---|---|
| 2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest. | Yes | The Company's shareholder is properly informed about such matters. |
| 2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them. | Yes | To the best of the Company's knowledge, the supervisory board acts impartially in taking decisions that are significant for the Company's operations and strategy, and the work and decisions of its members are not influenced by the persons who elected them. The regulations for the supervisory board's work establish the procedure for adopting decisions and the obligations of members of the supervisory board. |
| 2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence. | Yes | The regulations for the supervisory board's work establish the duty of the members of supervisory board to act for the benefit of the Company and their right to vote against proposed decisions. There is no requirement for the Company to have independent supervisory board members. |
| 2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks. | Yes | The supervisory board oversees the work of the Board and the CEO of the Company and approves the Company's strategy. These functions also include the oversight of tax planning strategies and the assessment of potential risks. |
| 2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees. | Yes | The supervisory board is provided with sufficient resources. |

2.2. Formation of the supervisory board

The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.

| | | |
|---|---|---|
| 2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks. | Yes | The members of the supervisory board collectively ensure an appropriate diversity of qualifications, professional experience and competences (in areas of law, finance and management), with multifaceted expertise, and include persons of both sexes. More detailed information about supervisory board members' experience, qualifications and positions held is provided in the Company's annual report. |
| 2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience. | Yes | Members of the supervisory board are appointed for a term of four years and can be re-elected. New members of the supervisory board appointed during the term of the supervisory board are appointed for the remaining term of the supervisory board. |
| 2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision. | Yes | The supervisory board elects a chairperson from among its members. The current chairwoman of the supervisory board is a member of the Board of the Company's sole shareholder and has not been the Company's CEO or a member of its Board. |
| 2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof. | Yes | The members of the Company's supervisory board have devoted due attention to performing their duties. Every meeting has been attended by all of the supervisory board's members. |
| 2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances. | Not applicable | There is no requirement for the Company to have independent supervisory board members. |

| | | |
|---|---|---|
| 2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders. | Yes | Remuneration to members of the supervisory board for their activities falls within the competence of the Company's general meeting of shareholders. |
| 2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures. | No | It is not the practice of the Company for the supervisory board to assess its own activities. |

## Principle 3: Management Board

### 3.1. Functions and liability of the management board

The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.

| | | |
|---|---|---|
| 3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy. | Yes | The supervisory board of the Company approved the Company's strategy on 29 January 2019. Its implementation is ensured by the Board and the CEO of the Company. |
| 3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development. | Yes | The Board performs the functions assigned to it by the Law on Companies and by the Company's articles of association. The Board takes into account the needs of the Company's shareholders, employees and other interest groups, striving to achieve sustainable business development. |
| 3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers. | Yes | The Board ensures compliance with the applicable laws and its own internal policy, and also establishes risk management and control measures to ensure the regular and direct accountability of managers. |

| | | |
|---|---|---|
| 3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards. | Yes | The Company has adopted and abides by a Corruption Prevention Policy. |
| 3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence. | Yes | In appointing the head of the Company, the balance of the person's qualifications, experience and competence is taken into account. |
| 3.2. Formation of the management board | | |
| 3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks. | Yes | The members of the Board collectively have broad experience, qualifications, knowledge and competencies. The representation of both sexes on the Board is ensured. More detailed information about the experience and qualifications of the members of the Board is provided in the Company's annual report. |
| 3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report. | Yes | Information about candidates to the Board is provided to the supervisory board in advance without violating personal data protection requirements. Information about the members of the Board is provided in the Company's annual report. |
| 3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company. | Yes | New members of the Board are acquainted with the most important information about the Company, including their duties and the structure and operations of the Company. |

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| 3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status. | Yes | Members of the Board are elected for a four-year term and can be re-elected. New members of the Board appointed during term of the Board are appointed for the remaining term of the Board. |
| 3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision. | Yes | The current and past positions held by the chairman of the Board are no obstacle to his acting impartially. Information about other positions held by the chairman of the Board is included in the Company's annual report. |
| 3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof. | Yes | Every member of the Board devotes sufficient time to the performance of their duties. There were no such Board members who missed more than half of the meetings. |
| 3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent, it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances. | Not applicable | The supervisory board is formed at the Company. Members of the Company's supervisory board are not subject to the requirement of independence. |
| 3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board. | No | The amount of remuneration to members of the Board for their work thereon is set by the supervisory board, which is composed of representatives appointed by the sole shareholder. |

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| 3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests. | Yes | To the Company's knowledge, all the members of the Board act in good faith, with care and responsibly, for the benefit of the Company and its shareholders, and represent their interests with due regard to other stakeholders. The members of the Board are subject to confidentiality and non-compete obligations. |
| 3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data. | No | It is not the practice of the Company for the Board to assess its own activities. The supervisory board, within the limits of its competence, oversees the work of the Board. |

## Principle 4: Rules of procedure of the supervisory board and the management board of the company

The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.

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| 4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this. | Yes | The Board and supervisory board work in close cooperation and are in regular contact (including related to the matters indicated in the recommendation). |

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| 4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter. | Yes | Meetings of the Board and of its supervisory board are held regularly and at intervals which ensure the uninterrupted resolution of essential matters. |
| 4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution. | Yes | Members of the Company's collegial bodies are informed in advance about meetings that are convened and have sufficient time to be acquainted with the relevant materials. |
| 4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed. | Yes | As needed, the chairs of the supervisory board and the Board coordinate meeting dates and agendas and work together closely. |

## Principle 5: Nomination, remuneration and audit committees

### 5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.

Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.

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| 5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees. | Yes/No | An audit committee was active in the Company in 2019. Nomination and remuneration committees are not formed as the supervisory board itself performs those functions and decided not to form such committees. |
| 5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees. | Yes | |
| 5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole. | Yes | The Company's supervisory board itself performs the functions which are assigned to nomination and remuneration committees. |
| 5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees. | Yes | The audit committee comprises three members, of whom two are independent. These members were selected based on their competences. Chair of the Board is neither chair, nor member of the audit committee. |
| 5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance. | Yes | The audit committee's regulations are approved by the supervisory board. The audit committee submits activity reports to the supervisory board. Information about the composition, activities and functions of the audit committee is published in the Company's annual report. |

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| 5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee. | Yes | The audit committee may invite selected persons to its meetings. The chair of the audit committee has the possibility to directly communicate with the shareholder if necessary. |
| 5.2. Nomination committee | | |
| 5.2.1. The key functions of the nomination committee should be the following:<br><br>1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected;<br><br>2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought;<br><br>3) devote the attention necessary to ensure succession planning. | Not applicable | This committee is not formed in the Company. These functions are performed by the supervisory board. |
| 5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee. | Not applicable | This committee is not formed in the Company. These functions are performed by the supervisory board. |
| 5.3. Remuneration committee | | |

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| 5.3.1. The main functions of the remuneration committee should be as follows:<br><br>1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so;<br><br>2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned;<br><br>3) review, on a regular basis, the remuneration policy and its implementation. | Not applicable | This committee is not formed in the Company. These functions are performed by the supervisory board. |
| 5.4. Audit committee | | |
| 5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee. | Yes | The audit committee performs the functions in the Company that legal acts envisage for it. |
| 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches. | Yes | The representatives of the Company's administration regularly participate in meetings of the audit committee and provide it with all detailed information regarding relevant issues. |
| 5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present. | Yes | The audit committee, as needed, can and does invite any representative of the Company and external auditors to its meetings. |

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| 5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group. | Yes | The audit committee meets with the internal auditors and receives information about internal audit results, recommendations and their implementation, as well as the work program. The committee also regularly holds the meetings with external auditors and receives information about audit status and results, and about any relationships between the Company and the external auditor. |
| 5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions. | Yes | The Audit Committee examines whether the Company complies with applicable regulations governing the ability of employees to lodge a complaint or report anonymously allegations of irregularity to the Company. |
| 5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved. | Yes | The Company's audit committee submits its activity report to the supervisory board twice a year: at the time of annual financial statements approval and for the period until 30 September. |

## Principle 6: Prevention and disclosure of conflicts of interest

The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.

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| Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value. | Yes | The members of the Company's supervisory and management bodies have the duty to avoid conflict of interest situations. If such situation occurs, such person must notify other members of the same body or the body of the company which elected him/her or the company's shareholder of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value. |

## Principle 7: Remuneration policy of the company

The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.

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| 7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy. | No | The legislation does not impose any obligation on the Company to approve and disclose the remuneration policy. The Company does not currently have approved remuneration policy, but is in the process of its preparation. |
| 7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments. | No | As legislation does not impose any obligation on the Company to approve and disclose the remuneration policy, the Company does not currently have approved remuneration policy but is in the process of its preparation. |
| 7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance. | Yes | The members of the supervisory board do not receive remuneration based on the Company's performance. |
| 7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance. | No | As legislation does not impose any obligation on the Company to approve and disclose the remuneration policy, the Company does not currently have approved remuneration policy but is in the process of its preparation. Termination payments are made on the basis and according to the provisions of the labour code and agreements. |
| 7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares. | Not applicable | No financial incentive system is applied in the Company. |

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| 7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year. | No | As legislation does not impose any obligation on the Company to approve and disclose the remuneration policy, the Company does not currently have approved remuneration policy, but the Company is in the process of its preparation. |
| 7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders. | No | The legislation does not impose any obligation on the Company to approve and disclose the remuneration policy, but the Company is in the process of its preparation. |

## Principle 8: Role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.

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| 8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected. | Yes | The Company respects the rights of stakeholders. |
| 8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc. | Yes | Stakeholders participate in the corporate governance of the Company in the manner established by the law. |
| 8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes | Stakeholders are provided with information in the manner established by the law. |

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| 8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function. | Yes | The Company has set up an internal channel for submitting information about violations, but it is not set up for reporting to the collegial body performing the oversight function. The company has a proven Anti-corruption policy. Every six months, the Company's Prevention Manager informs the Company's Audit Committee of its performance. |

## Principle 9: Disclosure of information

The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.

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| 9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following: | | |
| 9.1.1. operating and financial results of the company; | Yes | This information is published in the Company's consolidated financial statements. |
| 9.1.2. objectives and non-financial information of the company; | Yes | This information is published in the Company's consolidated annual report. |
| 9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary; | Yes | This information is published in the Company's consolidated financial statements. |
| 9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration; | Yes | This information is published in the Company's consolidated annual report. |
| 9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities; | Yes | This information is published in the Company's consolidated annual report. |
| 9.1.6. potential key risk factors, the company's risk management and supervision policy; | Yes | This information is published in the Company's consolidated annual report. |

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| 9.1.7. the company's transactions with related parties; | Yes | This information is published in the Company's consolidated financial statements. |
| 9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.); | Yes | The relevant information is published in the Company's consolidated annual report. |
| 9.1.9. structure and strategy of corporate governance; | Yes | This information is published in the Company's consolidated annual report. |
| 9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects.<br><br>This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts. | Yes | This information is published in a social responsibility report which is part of consolidated annual report. |
| 9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies. | Yes | Consolidated information is disclosed. |
| 9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7. | Yes | The information about professional experience, qualifications and potential conflicts of interest, if any, of the members of the Company's supervisory and management bodies, the Chief Executive Officer is disclosed. As the legal acts do not require to disclose the remuneration of the members of the Company's supervisory and management bodies, chief executive officer, this information is not disclosed. |

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| 9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time. | Yes | Information is disclosed through securities exchanges in Lithuania and Ireland. |

**Principle 10: Selection of the company's audit firm**

The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.

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| 10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm. | Yes | The Company's and the Group's annual financial statements are audited. |
| 10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company. | Yes | The Company's auditor was selected from tender applications. The Audit Committee had a meeting with all audit firms involved in the selection process. Following the opinion of the Audit Committee, the supervisory board proposed the audit firm to the sole shareholder. |
| 10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders. | Yes | The Company disclose information about amounts it has paid the auditor for non-audit services in its consolidated annual report. |

# Appendix 2
# CORPORATE SOCIAL RESPONSIBILITY

As a retail chain, we are part of a complex and interdependent ecosystem that is created daily by various stakeholders – employees and business partners, customers and consumers, international businesses and social entrepreneurs, governmental and non-governmental organizations, local farmers and communities among many others. By growing in our business operations, we learn to address corporate responsibility holistically and create value for and with our stakeholders in a sustainable way.

Located as they are over a vast geography, MAXIMA GRUPĖ companies' stores are valued by customers in 5 countries. This is a tremendous endorsement for us, yet it comes with huge responsibility. That is why we strive daily to deliver our promises to our customers, employees, partners and the public, to create a sustainable environment, both within and outside the organization. We promote the well-being of our employees, strive to build a strong trust-based environment, which is directly linked to our customers' satisfaction, initiate and pursue long-term collaborations with partners, reduce the environmental impact of business operations, and engage communities to address social and economic problems. All of this is done to create a healthy environment for each and every stakeholder to grow and prosper.

As a retail leader and one of the biggest taxpayers in the Baltic region, and as we grow our operations in Poland and Bulgaria, acting in a responsible and sustainable way is a part of our business at every level. We understand that there's still a long way to go, and learn daily where we can improve our efforts. That is why in 2019 we became a member of the United Nations (UN) Global Compact, which serves us as a roadmap for continuous improvement. By joining the Global Compact, in place for two decades now, MAXIMA GRUPĖ is committing to support and further strengthen the 10 Global Compact principles in the areas of human rights, environment, labour, and anti-corruption, and is embracing the 17 Sustainable Development Goals that underpin the UN Sustainable Development Agenda 2030.

# ETHICS

## PREVENTING CORRUPTION

MAXIMA GRUPĖ and its retail chains are committed to act according to law in all countries in which we operate. Among our most significant commitments are anti-corruption practices. The MAXIMA GRUPĖ Anti-Corruption Policy covers all actions and procedures that are forbidden in our business. We act with responsibility and transparency and follow the principle of zero tolerance for corruption. In 2019, we established the position of Prevention Officer, who is responsible for assuring compliance with the main principles of the document.

## CONTROL FRAMEWORK FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

MAXIMA GRUPĖ is managed on an integrated basis, with centralised financial reporting and internal controls related to the preparation of consolidated financial statements. MAXIMA GRUPĖ sets accounting policies and reporting procedures that have to be followed by the Group entities. All subsidiaries report their financial results to MAXIMA GRUPĖ on a monthly basis. Reported numbers are analysed by MAXIMA GRUPĖ employees in order to detect any accounting or reporting errors.

All MAXIMA GRUPĖ entities, except for those of the EMPERIA HOLDING S.A. group acquired in 2018 and BARBORA, use SAP ERP for financial accounting and reporting. The common system ensures consistent accounting and reporting and data comparability. A specialised SAP consolidation module is used as a tool for preparation of consolidated financial statements.

All changes in International Financial Reporting Standards (IFRS) are followed by MAXIMA GRUPĖ. The Company evaluates potential impact on consolidated and stand-alone financial statements, prepares plans for implementation of new standards, and controls the implementation, ensuring that new standards are appropriately implemented across the Group.

# CREATING VALUE IN A SUSTAINABLE WAY

In 2019 MAXIMA GRUPĖ concentrated its efforts on improving the good shopping experience and its overall performance in response to global retail trends, new tendencies in our customers' behaviour, emerging social issues and the potential for using cleaner energy solutions. MAXIMA GRUPĖ companies contributed to social projects of public interest and supported local communities, with a particular focus on reduction of the environmental footprint.

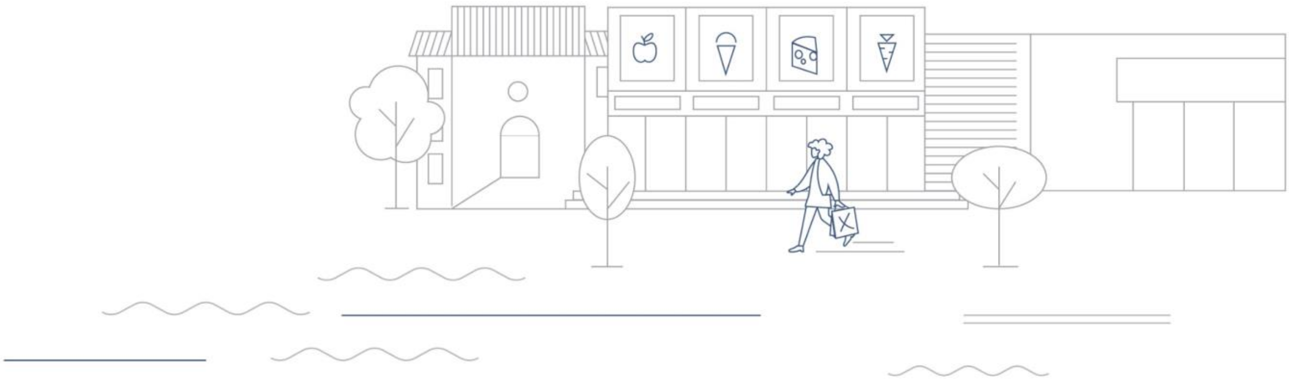
Like all business activities, operations of MAXIMA GRUPĖ companies are exposed to various risks. Risks can have a negative impact on our business, but managed properly, they can also add value to the Company. We see our responsible business conduct as a mean to manage risks while also creating value for our interdependent stakeholders.* It goes without saying that we pay great attention to conducting our business operations in a transparent and fair manner while maintaining high standards of business ethics and preventing corruption.**

We aspire to be a positive force for change in society. By taking a stance that is inspiring and daring, we are pushing ourselves and the industry towards greater sustainability.

* For more information on MAXIMA GRUPĖ's risk management approach (p. 22)
** For more information on MAXIMA GRUPĖ's business ethics and corruption prevention (page above)

MAXIMA GRUPĖ's commitment to become a responsible leading retailer and create value for our customers, suppliers and society in five key areas:

# Customers



Customers are at the core of our business. Our aim is to create value that guarantees the best shopping experience for our customers daily. In all markets where we operate, we seek to offer the best prices, develop the most attractive assortment options, invest in new stores and renew existing ones, at the same time also improving our home delivery service - BARBORA. All of this is done to meet our customers' demands and aspirations. We also focus on offering more sustainable alternatives to our customers, whether their concerns relate to animal welfare, the carbon footprint, or the social consequences of the food they eat. We aim to reduce our negative impact and set off a chain reaction of positive outcomes.

## LOW PRICES FOR QUALITY PRODUCTS AND SERVICES

Efficiency initiatives in 2019 allowed MAXIMA to continue the reduction of prices that began already in 2018. Throughout our stores' vast geography, a broad spectrum of long-term price reduction campaigns in different product categories were introduced helping our customers afford more quality items while spending less money and time shopping. In order to provide the most advantageous long-term offer for important and popular consumer goods as well as premium food, beverages and household goods, thanks to various initiatives, prices for different groups were reduced by up to 50%, contributing to growth of the Company's turnover and the customer's shopping basket. Furthermore, features such as a healthy, local, appealing and organic assortment, attentive service, and friendly staff, all enhance customers' perceptions of value for money.

## GLOBAL AND LOCAL CONSUMERS

True to our promise to offer our customers everything they are looking for in our stores, we sharpened our focus on the latest shopping trends and our customers' preferences. Over the past year, MAXIMA invested considerable effort in analysing the shopping habits of the population and global trends to identify a healthy, high-quality assortment that meets the needs of shoppers. MAXIMA also developed a healthy assortment and fast-growing niche product category for vegans and vegetarians, including gluten-free and organic product lines, as well as specialized nutrition for athletes. At MAXIMA stores in Latvia, customers are now offered a "street food" option – burgers, Belgian waffles, and more. We also promoted the development of ecological products, continuing to remove palm oil from our products and decrease the amount of sugar in products for kids.

## QUICK RESPONSE

We know that in order to maintain a good relationship and meet our customers' expectations, we have to continuously improve the ways we listen, respond to and connect with our customers. That said, we strive to respond to each customer's inquiries and enhance the customer experience. In every MAXIMA GRUPĖ retail chain, we have help lines and actively communicate on social media to acquaint so everyone can get acquainted with our activities, connect with stores, raise concerns or give feedback.

## TECHNOLOGIES FOR BETTER EXPERIENCE

For customers, time is precious. No matter the errand, it has to be quick and convenient. Only by further investing in the latest technological solutions can MAXIMA ensure the best shopping experience for its customers. Today many tasks are performed online, and demand is rising for digital services that make life easier. Last year, MAXIMA GRUPĖ companies proceeded with the implementation of their highly effective strategic projects to a wider range of stores. Hence, in addition to the increased use of electronic price labels, the number of self-service checkout counters grew steadily (57% of Baltic stores had them at the end of 2019), among other initiatives. Furthermore, we continued to look for more ways to use artificial intelligence to enhance customer flow and expiry date control as well as shelf replenishment.

## E-GROCERY LEADER

A key factor in the growth of e-commerce is that the younger generations are more digitally literate. Digital grocery shopping in the Baltics is currently in a growth phase. And BARBORA maintains its leading position in e-commerce in the region. Over the last year, BARBORA's delivery area has expanded to regional cities in Lithuania and additional collection points in Riga and Tallinn were introduced. The e-commerce leader has also introduced some improvements to make the shopping experience better. From one-click recipes that combine all the ingredients needed to make a meal, to enhanced delivery hours to meet customers' demand and DRIVE-IN, where customers are able to pass by a store and pick up their already-selected groceries – all of this to save the precious time of our customers.

## NEW AND RENOVATED STORES

MAXIMA last year continued actively expanding the convenience store format segment, adapting it to customers' habits with new functional and design solutions. In 2019, MAXIMA GRUPĖ companies invested 131.3 m EUR in fixed assets, up 49% from 88.1 m EUR in 2018. The investments were mainly for new stores, of which 101 were opened during 2019, including 74 in Poland under the STOKROTKA brand. That increased the network to 1,230 stores, with 644 in Poland. During 2019, 36 existing stores were reconstructed (20 in the Baltic countries), including major reconstruction of the largest MAXIMA store in Lithuania (10,000 sq. m.).

## QUALITY WITHOUT COMPROMISE

All our retail chains continue to strengthen quality control. With enhanced quality-check technology, fresh produce is evaluated more frequently. Moreover, we further strengthened self-monitoring procedures, thus the number of audits conducted before shipment from suppliers was increased.

# Employees

As one of the largest employers in the Baltics, we know our more than 40,000 employees are our biggest asset. That is why we try to ensure the active engagement, motivation, professional growth and personal development of every employee. We go all out to create a culture where every member of the team – from a store or warehouse employee to the management level – is valued, respected and able to show his or her full potential. In the organization we promote an internal culture where equal opportunities, good working conditions, continuous dialogue and improvement are the foundation of everyday conduct.

## BETTER & SAFE WORKING ENVIRONMENT

We take care of our employees every day and continually work to improve their work environment. A number of steps were taken in 2019 to ensure better working conditions and increase employee satisfaction. In Lithuania, for instance, MAXIMA signed a new collective agreement with the company's trade union. For additional benefits provided to all employees, MAXIMA allocated 300,000 EUR to support a productive work environment and ensure employees' well-being, group companies also maintain the highest safety standards. Every workplace is evaluated for risk probabilities and potential risk situations, and risk prevention measures are then taken. We train and communicate with our employees on how to manage risks and behave in certain situations.

## PROFESSIONAL GROWTH

We have sought to offer job opportunities to everyone who wants to become a member of our team. In Lithuania, thanks to vocational training centers for food production, there are now more trained professionals. Additionally, for offer all employees special training sessions, mostly via e-learning tools. To ensure lifelong learning and employees' personal development, at least 2-3 times a year lectures are organized on topics such as well-being, IT security, personal branding, millennial choices, etc. Moreover, for STOKROTKA employees we have continued the Stokrotka Manager Express (SME) development program, which aims to develop employees' skills with the aim of promotion to a regional manager position. Along with these efforts, we conduct training modules on sales, recruitment, operations, finance and BI, Excel applications and management skills.

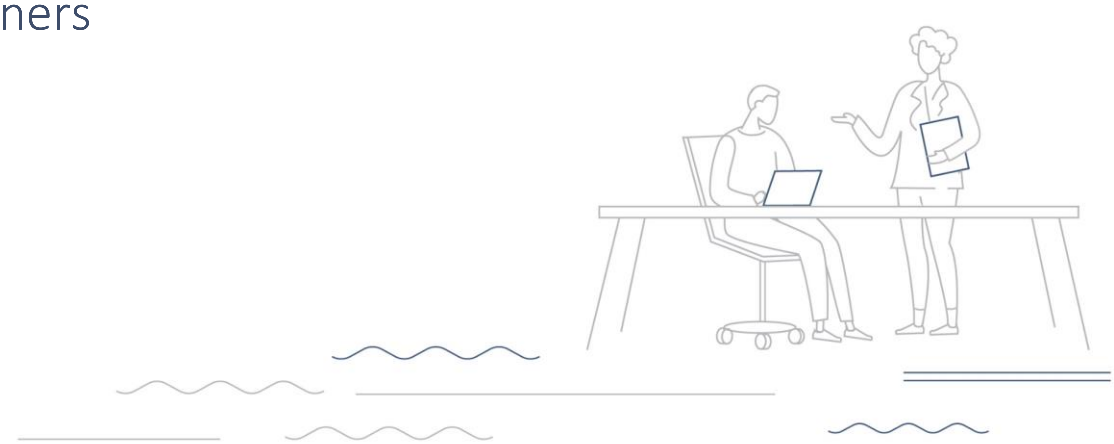
### INCENTIVES

MAXIMA GRUPĖ companies have a well-developed incentive system for employees. All store employees – from cashiers to administrators – can earn extra pay on top of their salary. This not only improves overall productivity but also boosts everyone's motivation and improves job satisfaction. In Lithuania last year alone bonuses of 10.3 m EUR were paid as incentives to MAXIMA LT employees (including employer and employee taxes), roughly three times the 2018 amount.

### EQUAL OPPORTUNITIES

At MAXIMA GRUPĖ companies, we are convinced that age, gender and social background cannot be an obstacle, and that professional paths can connect if one strives for equal professional opportunities. We believe in sharing different experiences, attitudes and opinions on how to improve our team behaviour and meet the diverse needs of our customers. At present, most of the executives in our Company are women. They manage commerce, communications, store development and other departments, and are store managers.

## Partners



Long-term cooperation and mutual growth together with our strategic partners – suppliers and manufacturers – is how we write our success story. Long years of excellent collaborations and partnerships have not only bolstered the sustainable growth of MAXIMA, but have also paved the way to success and growing foreign recognition for other business of Lithuanian origin. We seek to support local businesses and work together with long-term partners not only to achieve desired results, but also to have a positive impact to the local economies and societies. Through mutual learning, we seek to develop sound sustainable business practices and become a reliable long-term partner that helps companies reach their customers in a transparent, fair and easy manner.

### LOCAL COOPERATION

In 2019, partnerships with local producers and farmers were strengthened in order to support the local economy, ensure a range of locally produced and sourced products, and provide more customer favourites. “Thank You” tours were undertaken to strengthen ties with communities and local suppliers in smaller cities in Lithuania. Furthermore, MAXIMA, together with the Lithuanian Poultry Association and the Lithuanian Vegetable Growers Association, signed a declaration aimed at joining forces with farmers and producers in the country in order to increase the supply and demand for locally made Lithuanian food products.

### STRENGTHENING PARTNERSHIPS

For us it is important to grow together, which is why in Lithuania MAXIMA for a third time organized the Conference of Lithuanian Producers and Suppliers. The conference gathered more than 800 participants and offered live streaming to an even bigger audience. In Latvia, MAXIMA has additionally organized three “Maxima Retail Compass” conferences, gathering local and international suppliers and producers, media, other key opinion leaders, and economists to share knowledge on the latest trends in retail, trade as well as to highlight challenges and find solutions together.

## Communities

Our stores operate in various cities and towns across a vast geography, so we are in close contact and willingly help local communities – supporting their initiatives, helping them solve a variety of issues, increasing employment, and adding some colour to their leisure time. We also work closely with organizations that help people who are disadvantaged, together organizing a variety of campaigns. When it comes to social responsibility initiatives, we place particular emphasis on families and our future – children. We contribute to projects for healthcare and people with (dis)abilities. In all these ways, our companies seek to actively and responsibly support communities, contribute to the common good and help solve the problems that are faced by the countries where we operate.

## SUPPORTING COMMUNITIES

In Lithuania, MAXIMA organized a "We Are Community" programme including an 80,000-euro fund to support community initiatives with the potential to promote lifelong learning. Many projects have been undertaken to encourage people of all ages to learn different things throughout their lives. Moreover, MAXIMA GRUPĖ companies have collaborated with Food Banks to provide food for those in need. In Lithuania, MAXIMA donated more than 500,000 EUR of products while BARBORA, with the help of its customers, has donated some 4 tons of food. Other MAXIMA retail chains continued to actively support local communities and organizations, providing regular support to various social groups – families with numerous children, organizations for the disabled and senior citizens, the NGO sector and child and youth organizations.

## IN THE SPIRIT OF CHRISTMAS

In Estonia, the 11-year-old Angel Tree campaign helped fulfil the wishes of 2,100 children from disadvantaged families. MAXIMA's customers fulfilled many children's wishes, and the missing gifts were donated by MAXIMA. In Bulgaria, MAXIMA also took part in supporting communities during winter at the Social Kitchen project. T-MARKET donated products for the preparation of hot soups for disadvantaged people for 3 weeks. The charity initiative helped more than 500 people in need get a warm lunch during winter. In Poland, STOKROTKA supported Christmas initiatives such as The We Give Help Foundation, a figure-skating championship, and the Pioneers Club from Koszalin, which was realized as a donation of products for Christmas Eve for elderly and lonely residents of the city. STOKROTKA also worked with social activists from Koszalin preparing packages for disadvantaged children and a Christmas breakfast.

## INVESTING IN CHILDREN'S HEALTH

In Latvia, MAXIMA has continued to support the "Poga" rehabilitation center, a non-profit foundation that was established in 2015. The aim of the support has been to create an excellent environment for rehabilitation by introducing the most modern rehabilitation technologies in Latvia, to be a support for families with children that have special needs, and to help the rehabilitation sector. The main aim of the cooperation is to help children with disabilities and raise awareness in society about children with disabilities, encouraging their integration in society. It also contributes to creating a functioning rehabilitation system in Latvia and supporting families who are raising children with disabilities. In 2019, MAXIMA Latvija raised a total of 212,418 EUR (100,000 EUR was a direct donation by MAXIMA Latvija for the development of new premises for the rehabilitation center). In Lithuania, MAXIMA has actively supported the Disabled People's Union of Kaunas Region, the Mstislav Rostropovich Charitable and Relief Foundation "Help for Lithuanian Children", the Rimantas Kaukėnas Support Group, SOS Children's Villages, and various other initiatives.

## INVESTING IN EDUCATION

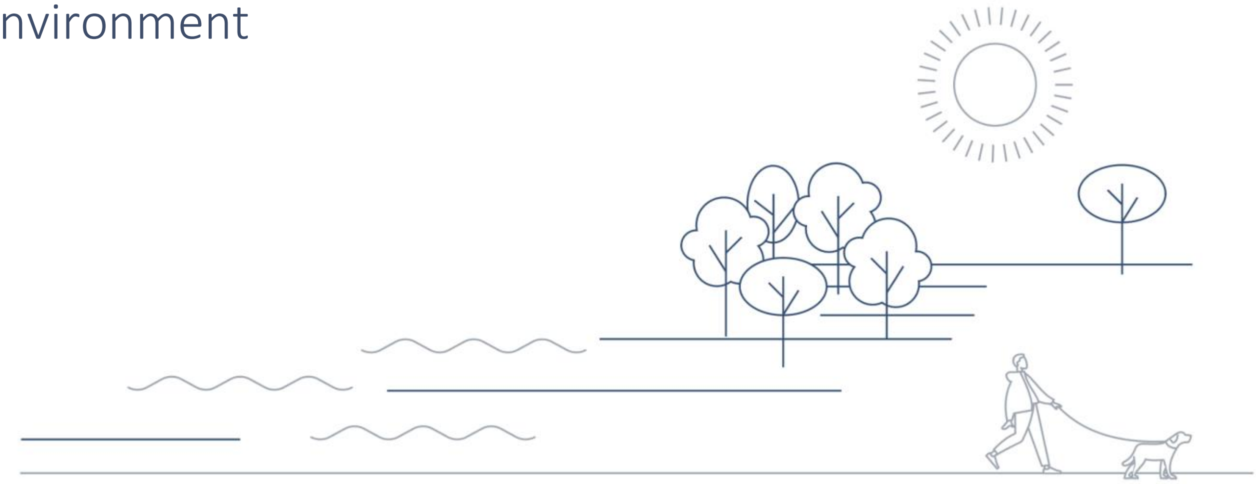
Realizing that education is a key pillar of every society, in Lithuania MAXIMA continued with its "Lithuanian Maximalists" campaign, which has awarded almost a hundred highly talented children with scholarships for an entire school year. Maxima has given 70,000 EUR to ensure every talented child has an opportunity to reach his or her goals. Additionally, to make learning more exciting and promote critical thinking, MAXIMA has continued to sponsor the "Best Lesson Ever" and "Freedom Picnic" initiatives.

Furthermore, MAXIMA GRUPĖ, UAB has launched a competition for girls in the final years of school who dream of a successful career and want to get leadership knowledge and skills at the Go Forward Academy. This first leadership academy of its kind in Lithuania is dedicated to helping school-age girls discover their talents, develop skills and learn from outstanding professionals. The Company provided 20 scholarships to motivated girls from needy families.

### PROMOTING HEALTHY HABITS & LIFESTYLE

MAXIMA wants to enable everyone to live healthier lives. In 2019, a big focus in MAXIMA GRUPĖ companies was devoted to youth sports. For example, in addition to continuous support for the Ghetto Games, which is the biggest street culture movement in Latvia, MAXIMA continued to be Latvia's largest private supporter of children's and youth hockey, track and field athletics, in collaboration with the Latvian Hockey Federation and the Latvian Athletics Association. The main goal is to improve the infrastructure and the training processes of ice hockey and athletics, in order to create wider interest in sports among both children and their parents through more innovative and attractive sports trainings. To date, MAXIMA Latvija has invested more than 200,000 EUR in the development of sports for children and young people. In Bulgaria, T-MARKET during the year supported a wide range of athletic events, like the Plovdiv Marathon, a mini volleyball festival, a summer tennis fest and Games Without Barriers – sport competitions for young people with disabilities organized by the Parallel World Association. In Poland, STOKROTKA supported initiatives such as Children's Day ties, the Polish Youth Cup and a children's Mont Blanc expedition.

# Environment



MAXIMA GRUPĖ seeks to look after the environment and reduce the environmental footprint of its own operations. We understand that there is still a long way to go, but over time we aim to introduce more sustainable business practices with as little environmental impact as possible. We continue focusing on more circular packaging and renewable energy solutions as well as food waste reduction, in order to contribute to bringing climate change under control and reducing emissions.

The effective use of energy resources is a building block in the sustainability of each business. In 2019 MAXIMA made efforts to increase energy efficiency across its operations in order to minimize the environmental footprint through renewable energy solutions, improved logistics and other efforts. In close cooperation with developers, planning engineers and construction companies, we are constantly developing innovative solutions to reduce the environmental impact of our stores, distribution centers, and administrative buildings.

## EFFECTIVE ENERGY MANAGEMENT

Sustainability is efficient energy management. Therefore, in every newly opened or reconstructed store we are using refrigerants with low global warming potential and LED lighting.

Last year a solar power plant was constructed on the roof of a MAXIMA store in Lithuania. It is the largest power plant on a grocery store in the Baltic states, with a capacity of 123 kW. Power it generates has been used for all store needs - lighting, heating, ventilation and cooling systems, and other processes. Over the next five years, MAXIMA GRUPĖ plans to invest more in energy-saving solutions such as solar power plants. Moreover, in 2019 MAXIMA LT and the Nordic Investment Bank (NIB) signed a 10-year 52 m EUR loan agreement for green investments. Part of the amount was invested already last year in clean technology solutions, more efficient cooling systems and LED lighting. Over coming years, these investments are projected to raise MAXIMA GRUPĖ's energy savings, with annual energy use expected to decrease by 40 GWh at reconstructed properties. In any case, implementing more sustainable solutions is becoming a daily routine for our Company and we are open to new opportunities.

## PLASTICS REDUCTION

In 2019, all disposable plastic was taken out of trade at the Curonian Spit in Lithuania. MAXIMA stopped selling disposable plastic, removing all disposable bags, utensils and straws. What started as a short-term initiative, developed into a long-term project. The initiative has inspired other cities to take similar steps and raised awareness of environmental issues. More eco-friendly disposable tableware, straws and utensils have been introduced, and a huge assortment of bags has emerged. Additionally, throughout our companies we encourage customers to reduce the use of plastic in their household by opting to package their order in paper or multiuse bags. Within MAXIMA GRUPĖ retail chains, every customer is able to choose a paper bag or, even better, a multiuse bag, instead of a plastic one. Moreover, in 2019 our e-commerce leader BARBORA also introduced paper delivery bags.

## RECYCLING

Nearly all packaging materials that come to MAXIMA GRUPĖ stores are collected for recycling or energy production. We make an extra effort to educate our employees who directly take care of packaging waste. Last year MAXIMA GRUPĖ organized workshops and instruction sessions on the circular economy and recycling in order to improve the recycling rate at our stores and, as a spill over effect, to encourage our employees to change their habits and start recycling at home too.

## ANIMAL WELFARE

In addition to supporting a vast range of local animal shelters, MAXIMA LT made the decision to phase out live fish in aquariums in Lithuania. At remodelled and newly built stores, aquariums will no longer be installed. Instead, customers will be offered a wider range of chilled fish. This decision was made with an eye to improving animal welfare as well as in light of customers' changing preferences. Additionally, MAXIMA GRUPĖ is on target to stop selling eggs laid by caged hens throughout the Baltics by 2025. The supply of cage-free egg-laying hens is steadily increasing, as is demand.