Unaudited Consolidated Results

iCotton Group

Management report 2023

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Harper Hygienics & iCotton

Locations

The largest producer and seller of wet wipes, cotton buds and pads in Central and Eastern Europe.

Cutting edge manufacturing facilities in Poland and Latvia.

Proven partner in business across Europe, Middle East, Asia, America and Africa.

Business overview

iCotton, founded in 2011 in Liepāja, Latvia, is a leading Baltic producer of cotton and hygiene products. The iCotton group also includes the Polish company Harper Hygienics. The group makes cotton buds, pads, wet wipes, feminine hygiene products. Key brands include Cleanic, Kindii, and Presto, known in Poland. With production sites in Liepaja (9,000 m^2, 11 lines) and Warsaw (13,200 m^2, 44 lines), iCotton group's 2023 turnover surpassed 70 million EUR, with 45% from local markets and 55% from the EU and other exports.

Harper Hygienics

- Non-woven fabric Arvell
- Cotton buds
- Cotton pads
- Wet wipes
- Underpads
- Canisters

32 years on the market

iCotton

- Natural non-woven fabrics
- Feminine hygiene products
- Cotton spunlace
- Cotton pads
- Dry wipes

11 years on the market

Highlights of 2024

The **revenue of the iCotton group** remained steady, amounting to EUR 68.24 million in 2022 and slightly increasing to EUR 68.82 million in 2023, demonstrating consistency over the two years.

According to the unaudited financial statement**, the gross profit of the iCotton group** saw a significant increase, reaching EUR 19.37 million compared to EUR 11.6 million in 2022.

In March 2023, iCotton made a strategic move by acquiring **key assets of Hempress Hygienics Inc.** including its trademarks. This acquisition positioned iCotton for expansion into the lucrative **North American market and beyond**. The first delivery of products to the US market was successfully executed in the second quarter of 2023, marking a pivotal milestone for the company's growth trajectory.

In the first quarter of 2023, the company initiated direct-to-consumer sales through **e-commerce platforms Allegro and Amazon**. This strategic move enabled iCotton to tap into a wider consumer base and capitalize on the growing trend of online shopping.

The **bond issue in December 2023**, arranged by the Signet Bank, alongside the ALTUM AKF mezzanine loan received at the end of 2021, ensured the companies with substantial additional working capital for further development.

Key financials

Revenue

Since Q4 2022, the Company is back on its initial **grow path** from the **previous 2-3 years of all kinds of global unexpected challenges**, including:

COVID-19, which resulted in:

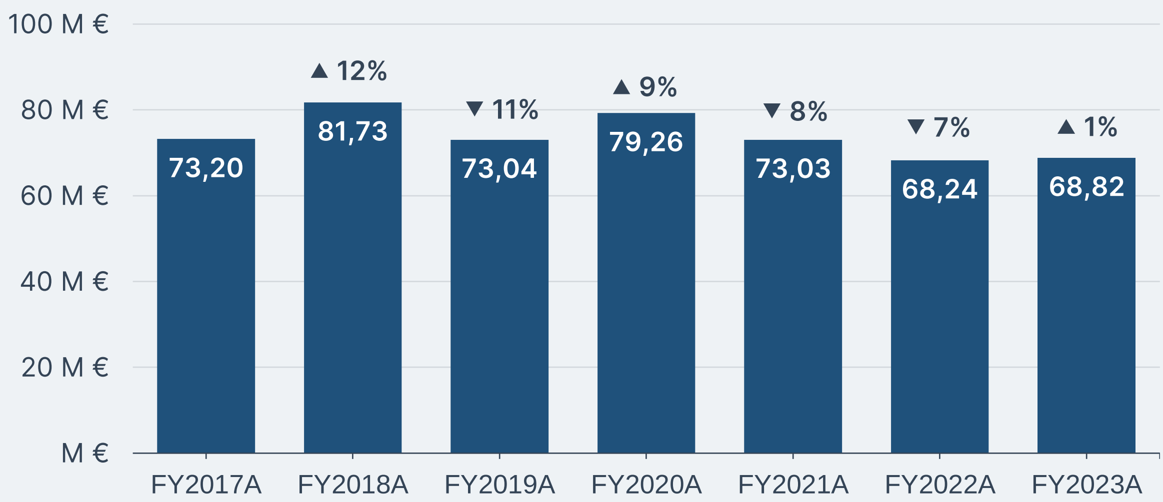
- production and supply chain disruptions,
- delays in capacity expansion and new product development, because of suppliers' inability to implement them on site.

War in Ukraine, which resulted in:

- a surge in raw material and energy prices,
- need to make supply chain adjustments,
- ad hoc reshuffle of the Group's export markets.

Since the start of the war, the Company has significantly decreased exports of products to Russia/Belarus and has successfully shifted focus to other markets.

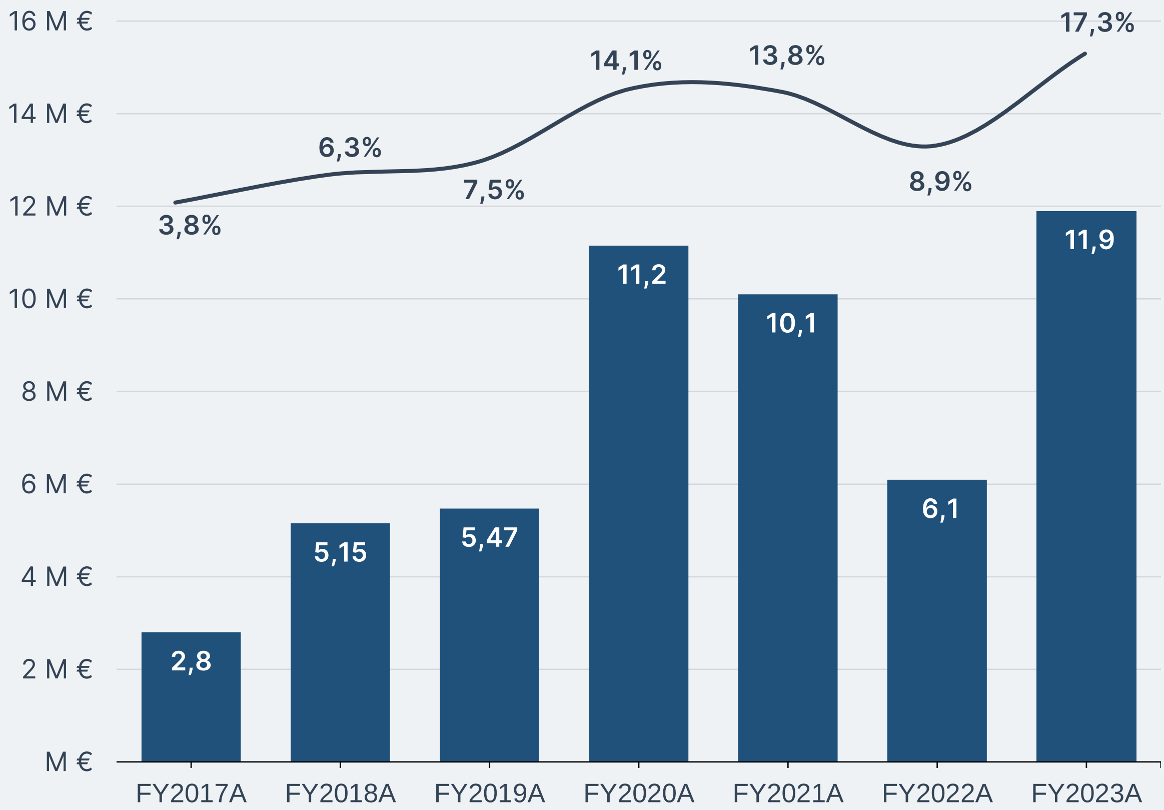
To illustrate, the share of exports to CIS customs zone markets has declined from 48% in 2021 to 14% in 1H 2023, and Ukraine being the main market in the category (ca. 50% share).



Key financials
Normalized adjusted EBITDA

The shift towards new markets and the strengthening of its presence in existing markets, combined with the stabilization of raw material prices, **enabled the Company to improve significantly its financial results**:

- **Revenue** in 2023 reached EUR 68.8 m (+1% y/y),
  EBITDA* reached EUR 11.9m (x1.95 y/y),
- **EBITDA* margin** increased to 17.3%, exceeding the level of previous years.



*According to the Group's financial model
Normalized adjusted EBITDA (EBITDA + extraordinary non-operative expenses)

Covenants & ratios

With revenue of €68,823K and EBITDA of €9,235K, the Group demonstrates solid operational performance.

Equity Ratio of 37% reflects a healthy balance between equity and debt financing, showcasing a stable financial structure.

The Debt/EBITDA ratio of 3.0 suggests a manageable level of debt relative to earnings, while DSCR of 2.8 underscores the company's capacity to comfortably service its debt obligations with operating income.

With a Working Capital of €25,425K, the Group exhibits sufficient liquidity to support its day-to-day operations and meet short-term obligations.

Consolidated covenants, kEUR

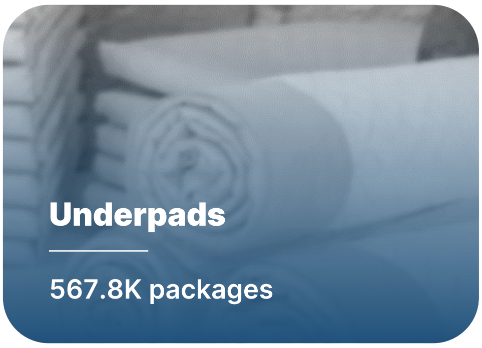
Indicator	Value
NSV	68,823
EBITDA:	9,235
Adjusted normalized consloidated EBITDA	11,900
WC	25,425
External net debt	27,644

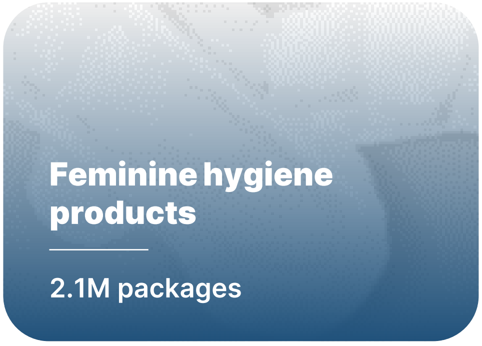
Ratios

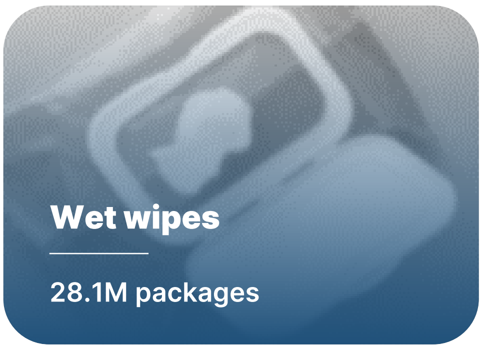
Indicator	Value
Equity ratio:	37%
DEBT/EBITDA	x3.0
DSCR	x2.8

Production performance 2023

Main categories



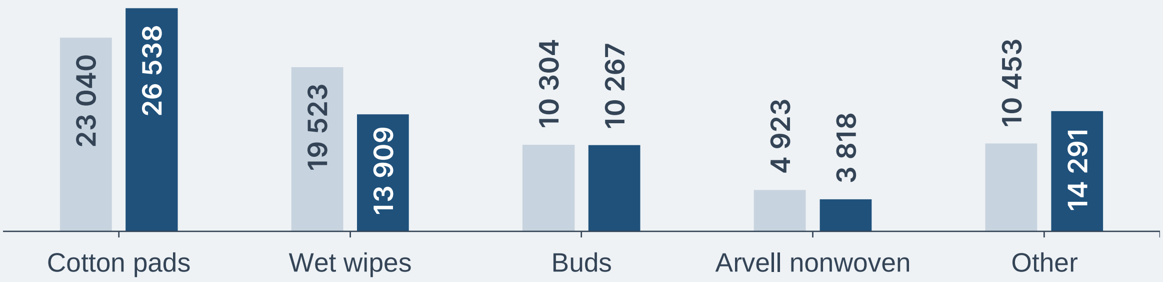




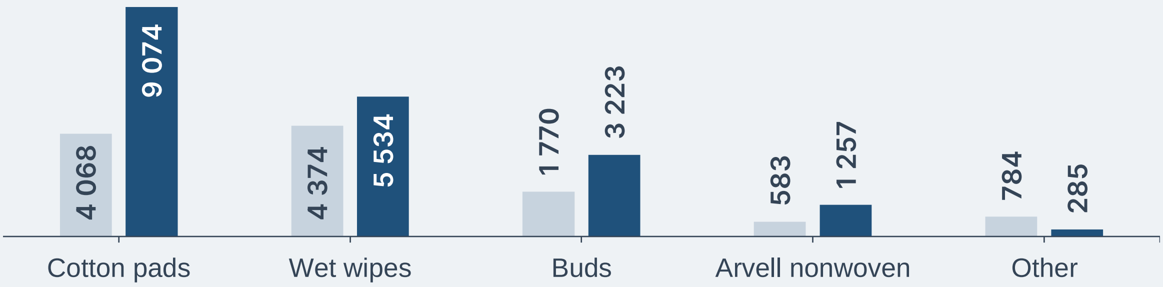
Sales by product group

Cosmetic pads segment exhibits a 15% revenue increase and an impressive 123% gross profit growth, reflecting market demand and operational enhancements. Despite stagnant revenue, **the buds category** sees an 82% gross profit surge, emphasizing efficiency and profitability. Discontinuing unprofitable contracts for **wet wipes** and **Arvell nonwoven** material led to revenue declines (29% and 22% respectively) but enabled significant gross profit increases (27% and 116% respectively), showcasing a focus on profitability optimization and resource allocation.

Revenue distribution by product group, kEUR



Gross profit distribution by product group, kEUR



Financial year 2022 (Actual) Financial year 2023 (Actual)

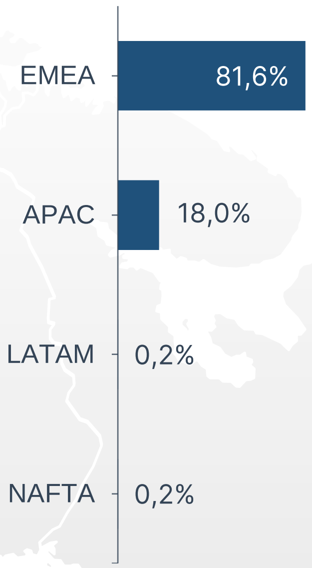
Revenue breakdown*

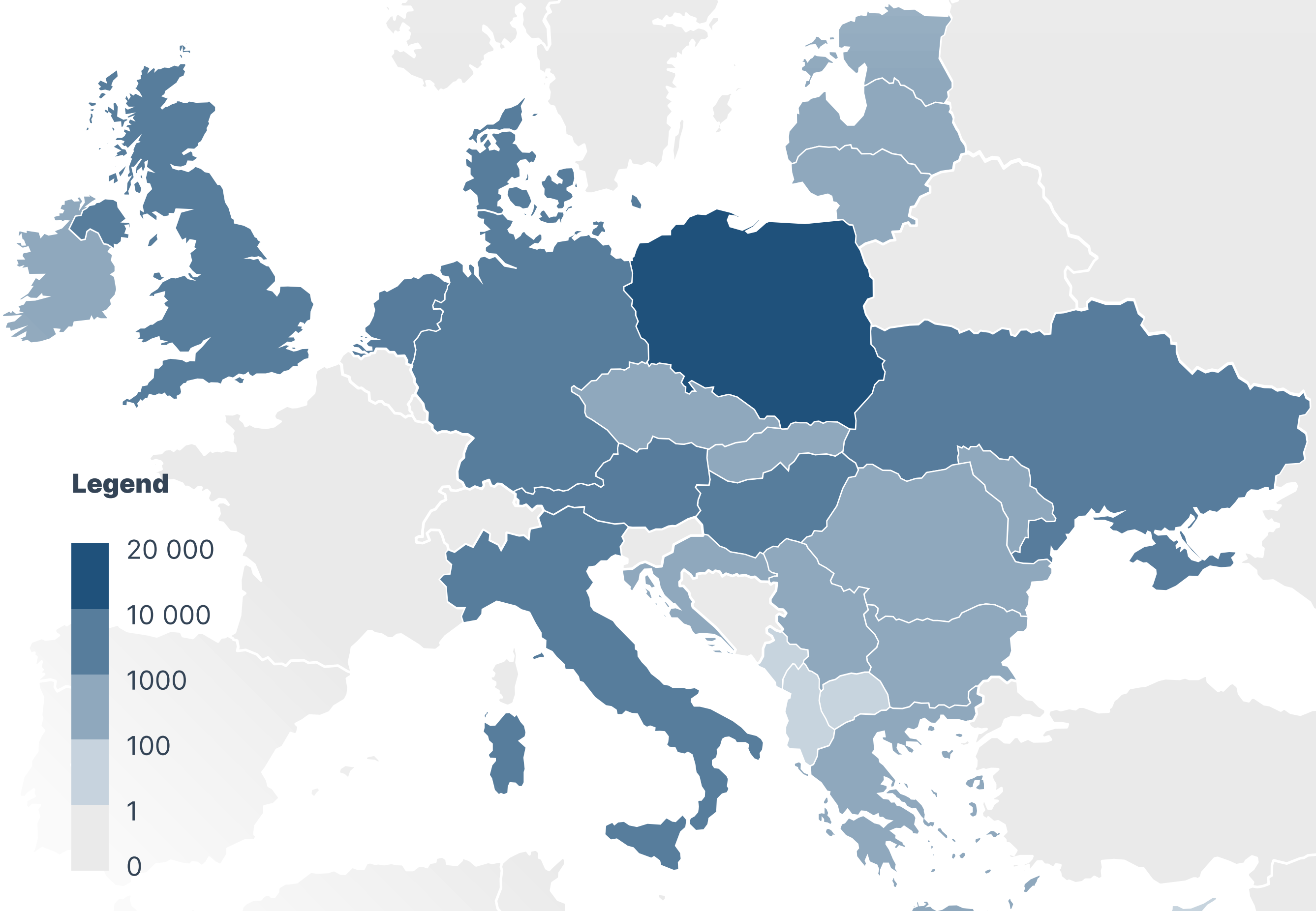
*For the period of 9M 2023

Sales in Europe, net sales value (NSV), kEUR

Country	NSV	Country	NSV
Poland	29,028	Estonia	555
Italy	1,617	Serbia	496
The Netherlands	1,394	Bulgaria	460
Ukraine	1,388	Slovakia	387
Austria	1,385	Ireland	222
Germany	1,289	Croatia	194
Hungary	1,242	Moldova	175
The UK	1,172	Denmark	166
Latvia	910	Kosovo	159
Lithuania	716	North Macedonia	58
Romania	707	Montenegro	32
Czech Republic	701	Cyprus	23
Greece	603	Albania	7

Sales by region





Unit: kEUR

Income statement

Revenue increase from €68,243M in 2022 to €68,823M in 2023 reflected a 1% growth.

Cost of sales decreased substantially, up to 13%, due to the stabilization of the raw material prices in 2023 and successful Management efforts aimed at the production efficiency increase.

Sales expenses remained unchanged, suggesting the Group maintained a consistent level of expenditure in areas directly related to generating sales.

Administration expenses have slightly increased from €5,408M to €5,448M, representing a 1% rise due to the increase in maintenance costs

Other operating costs mainly consisted of write-downs of receivables, adjustment of prior years, settlement of shortfalls and disposal, FX losses, non-economic expenses, etc.

Income statement, kEUR

Indicator	FY21A	FY22A	FY23A
Revenue	73,033	68,243	68,823
Cost of sales	(56,316)	(56,664)	(49,450)
Gross profit	**16,717**	**11,579**	**19,373**
Sales expense	-	(8,655)	(8,680)
Administration expense	(4,912)	(5,408)	(5,448)
Other operating income	3,102	3,233	2,474
Other operating costs	(1,935)	(1,244)	(1,628)
Financial income	1,483	(399)	763
Financial costs	(1,888)	(4,459)	(4,345)
Income before tax	**5,102**	**(5,353)**	**2,509**
Corporate income tax	(109)	68	(437)
Net income	4,993	(5,286)	2,072
Depreciation	(3,095)	(2,935)	(3,144)
EBITDA	**8,602**	**2,440**	**9,235**
Adjusted Normalized consolidated EBITDA	**10,280**	**6,093**	**11,900**
KPIs			
COGS as % of Revenue	77%	83%	72%
Gross profit margin	23%	17%	28%
EBITDA margin	12%	4%	13%
Consolidated adj. normalized EBITDA margin	14%	9%	17%

Balance sheet

The Company operates continuously with positive **net working capital** which fluctuated considerably compared Dec22A to Dec21A as a result of significant increase in trade payables balances at Harper Hygienics because of **significant sales market changes. This dynamics turned back in 2023.**

The Company consistently focuses on optimizing raw material stock and ensuring timely deliveries. Trade receivables have increased compared to the previous period due to significant price hikes, but company assets have been effectively managed.

Balance sheet, kEUR

Indicator	FY21A	FY22A	FY23A
Assets			
Intangible assets	735	1,313	1,372
Fixed assets	54,284	53,397	54,039
Negative goodwill	-	-	-
Long-term financial investments	1,698	323	2,955
Deferred tax assets	4,293	4,118	4,227
Inventory	15,671	13,293	9,599
Trade receivables	16,412	14,983	17,873
Other receivables	-	-	-
Other current assets	374	3,630	373
Unpaid shares in the company's capital	-	-	-
Short-term financial investments	5,183	5,183	5,183
Cash	356	896	18,117
Total assets	**99,006**	**97,135**	**113,738**
Share capital	13,333	13,333	13,333
Other capital	-	-	4,558
Undistributed profits	16,252	16,424	20,016
Profit or loss for the period	12,018	7,406	1,412
Non-controlling interest	3,112	(96)	2,623
Equity	**44,715**	**37,068**	**41,942**

Balance sheet

Balance sheet, kEUR

Indicator	**FY21A**	**FY22A**	**FY23A**
Liabilities			
LT Loans from banks	4,239	6,207	12,902
LT Other loans	10,000	9,331	-
Bonds	-	-	20,000
Deferred income	3,503	3,714	3,486
LT leasing liabilities	854	940	612
ST Loans from banks	10,481	9,954	10,286
ST Other loans	-	-	-
Advances received	12	43	7,327
Trade payables	18,406	22,074	8,163
Other payables	4,141	3,930	5,047
Other ST liabilities	1,189	1,822	513
ST liabilities (Leasing & Factoring)	1,466	2,051	3,461
Total Liabilities	**54,291**	**60,067**	**71,796**

Key performance indicators

Summary

Consolidated revenue FY23A **€68.8m** | +0.8%

Compared to FY2022A

Consolidated adjusted EBITDA margin FY23A **17.3%** | previously 8.9%

Compared to FY2022A

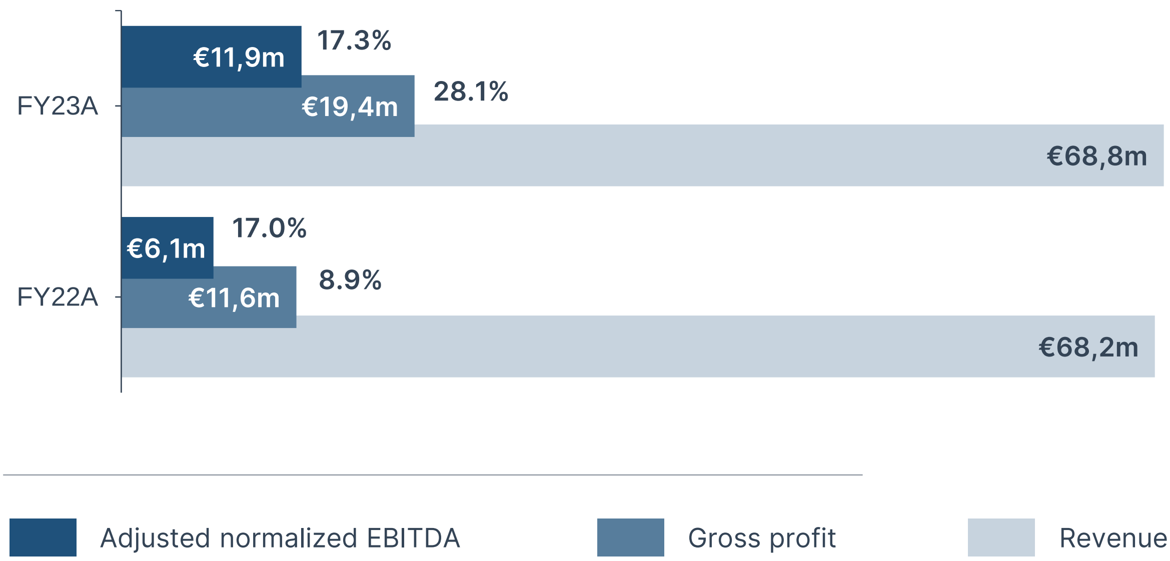
Gross margin increase in FY23A **28.1%** | +11.2 pp

Compared to FY2022A

Consolidated NWC **€25.4m** | +74.6%

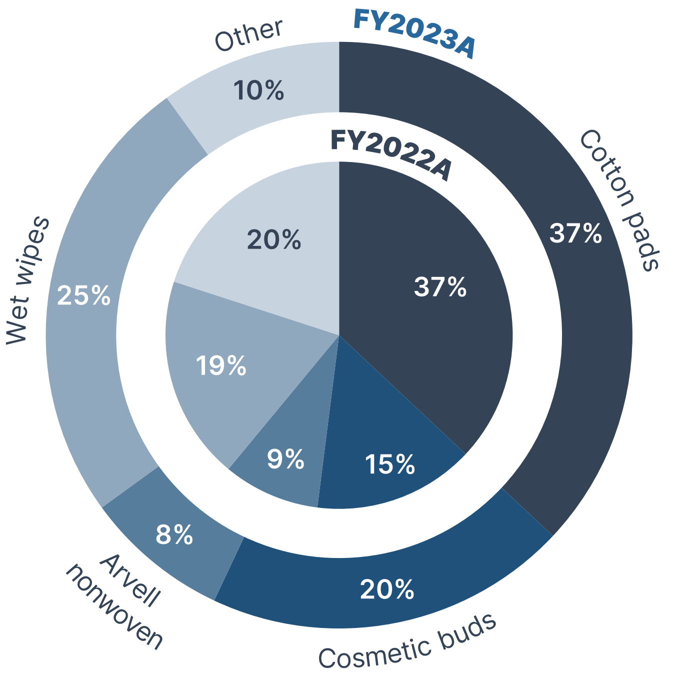
Compared to FY2022A

Net sales value



Key performance indicators

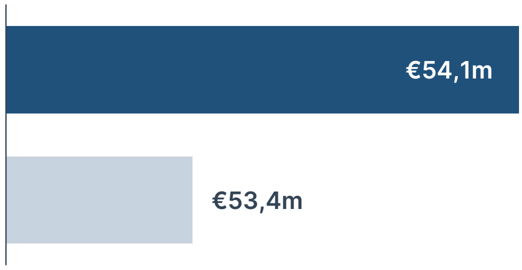
Consolidated EBITDA build-up



Cotton pads	**37%**	37%
Cotton buds	**20%**	15%
Arvell nonwoven	**8%**	9%
Wet wipes	**25%**	19%
Other	**10%**	20%

Working capital

Fixed assets



December 2022 (Actual) September 2023 (Actual)

iCotton SIA

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Reg. number 42103057947

Share capital: EUR 13 333 300 paid: EUR 8 150 000

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