



To the creditors of
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REORGANISER'S REPORT AND COMPOSITION PROPOSAL

By decision of the Stockholm District Court on March 23, 2020, Polarn O. Pyret Aktiebolag (*the Company*) has initiated corporate reorganisation. As reorganisers appointed by the district court, we hereby submit a reorganiser's report and convey the following composition proposal.

1 BACKGROUND

- 1.1 The Company has on March 23, 2020 submitted an application for reorganisation in accordance with the Company Reorganisation Act (Swedish: lagen om företagsrekonstruktion). The Stockholm District Court granted the application the same day and consequently the Company entered into company reorganisation. The lawyers Ola Sellert and Mats Emthén have been appointed as reorganisers. The court's case number is Å 4434-20.
- 1.2 A circular letter in accordance to Chapter 2, Section 13 of the Company Reorganisation Act with information concerning the reorganisation has been sent to all known creditors. A preliminary reorganisation plan has been submitted and presented at a creditor's meeting before the district court on April 29, 2020. The company has on June 22, 2020 requested that the district court extends the reorganisation by a further three months. The district court has not yet decided on the extension, since the request is to be supplemented by this reorganisation report and

composition proposal. However, there is no reason to believe that the Company would not be granted the requested extension.

- 1.3 The preliminary reorganisation plan describes how the Company conducts its operations during the reorganisation, regarding, among other things the prohibition on paying debts that arose before the reorganisation and how to handle advance payments to suppliers for continued deliveries. In addition, there is a description of the Group that the Company is a part of, the RNB Group (*the Group*), with general information about the Company's, Brothers AB's and Departments & Stores Europe AB's operations, stores, employees, etc. These sections have continued validity, but are left out here for presentational reasons, and the reorganisers may therefore in these sections refer to the preliminary reorganisation plan.

2 COMPOSITION PROPOSAL

- 2.1 **Under the conditions set out below, the Company is offering its non-priority creditors a composition with the payment of a basic amount of SEK 10,000 and 25 percent on any excess claim amount. The composition covers capital sums and interest calculated up until the date of the reorganisation application, March 23, 2020. The composition payment shall be made no later than January 31, 2021, or at a later date when the district court's decision to approve the composition has entered into legal force.**
- 2.2 It can be noted that the creditors in Brothers AB's and Departments & Stores Europe AB's reorganisations are offered a corresponding composition this day.
- 2.3 The composition proposal offers several advantages for the Company's creditors compared to the bankruptcy option. Foremost, the composition is considered to provide better distribution compared to bankruptcy. In addition, due to the size of the business, it will take a long time before a bankruptcy can be finalized, which means that distribution is likely to take at least 2-3 years. The composition also means that the creditors know in advance what distribution they can expect, which is not the case in bankruptcy. In these pandemic times, the forecasts of what a bankruptcy would mean for, among other things, the possibility of liquidating inventory stocks quickly, are highly uncertain. The outcome of a bankruptcy may well be worse than what is presumed in this report. The composition proposal thus implies a certainty that is lacking in bankruptcy.
- 2.4 For a large proportion of creditors, the basic amount of SEK 10,000 means that they will receive significantly more than 25 percent distribution on the claim in the composition. In addition, the composition offer means that creditors get paid much faster than in a bankruptcy.

- 2.5 The composition proposal is considered by the reorganisers as being in the creditors' favour when compared to the estimated outcome in a bankruptcy. The reorganisers therefore support the composition proposal.
- 2.6 The liquidity budgets made by the Company show that the Company will be able to make the composition payment no later than 31 January 2021. The intended composition payment has been scheduled at a time when the Company is expected to be strong in terms of liquidity.
- 2.7 If it turns out that the Company's business is developing better than the forecasts, which is primarily assumed to be linked to the easing up of the effects of the Corona pandemic, the Company will make the composition payment sooner. The Company's ambition is thus to make the composition payment as soon as possible. This also has the advantage that one can expect that the Company will be able to obtain customary supplier credits to a greater extent at an earlier stage.
- 2.8 Intra-group receivables are covered by, and vote in, the composition, but the Group companies are waiving the composition payment in order to strengthen the Company's liquidity. The intra-group (accrued) receivables will thus remain on the Company's balance sheet.
- 2.9 The reasons for why the composition offer is constructed as it is, and the background to the assessments presented above, are presented below.

3 THE FINANCES OF THE COMPANY AND THE REASONS FOR ITS PAYMENT DIFFICULTIES

- 3.1 During the financial year 2018-09-01--2019-08-31, the Company had sales of approximately SEK 520m excluding sales to the subsidiaries (including sales to the subsidiaries, sales amounted to approximately SEK 621m).
- 3.2 According to the most recently published quarterly report, the Company's sales during the financial period 190901--200229 amounted to SEK 402m compared with SEK 455m for the corresponding period last year, and the Company reported an operating profit of SEK 16m and SEK 46m respectively during the same period.
- 3.3 The reasons for the Company's liquidity problems are severalfold. The Company has developed positively for a number of years, with exception for the last year, when the Company saw a decline in sales. In addition, Company's seasonal collection has, as a result of an exceptionally mild winter 2019/20, not attracted a sufficient number of buyers.
- 3.4 Furthermore, the business has in recent times been characterized by more frequent sales and thus higher price reductions. This in combination with higher fixed

costs, such as costs for premises and staff, has together resulted in a lower operating margin for the Company. The weak Swedish krona has had a negative currency impact, resulting in higher purchasing costs, which has also weakened margins and earnings.

- 3.5 However, the situation for the Company has drastically deteriorated as a direct and inevitable result of the global pandemic COVID-19, which has led to significantly fewer visitors to stores and a drastically lower activity in the retail trade. The effects of the pandemic on visits and sales have not been foreseeable, and the effects cannot be emphasised enough as a cause of the Company's acute problems.
- 3.6 During the quarter of March-May 2020, the company's sales in stores amounted to approximately 56 percent in relation to the same quarter last year (i.e. a 44 percent decline in sales).
- 3.7 The declining turnover has not been fully compensated for by lower costs given the drastically changed situation, but the Company believes it has a good position to return to after the situation has normalised with regard to COVID19.
- 3.8 A preliminary balance report as of 2020-05-31 is attached, see [Appendix 1](#) (in Swedish).

4 ESTATE INVENTORY FOR THE COMPOSITION

General

- 4.1 A preliminary estate inventory for the composition as of 2020-05-31, including a balance sheet with assets and liabilities arranged by order of priority, is appended, see [Appendix 2](#) (in Swedish).
- 4.2 This estate inventory also provides a forecast for how the outcome of a bankruptcy could impact the Company's unsecured creditors. The bankruptcy outcome is highly dependent on the assumptions made regarding the valuation of assets and liabilities in a bankruptcy scenario. It goes without saying that this is not an easy task, but the reorganisers' considerations in this regard are presented below.

Assets

- 4.3 The Company's fixed assets consist mainly of capitalised expenses, inventory and shares in subsidiaries. The capitalised expenditure of approximately SEK 26m is attributable to investments in IT systems. The inventory, which has a book value of approximately SEK 11m, consists mainly of shop fittings. It can be assumed that such assets have virtually no value in a bankruptcy situation and the assets have therefore been valued at a standard rate of 10 percent of book value.

- 4.4 The fixed assets also include shares in subsidiaries with a book value of approximately SEK 22m (as stated above, there are significant operations in Finland and Norway, among other countries). Operations in Norway and Finland are currently considered to be capable of continuing operations. However, it is not reasonable to believe that the subsidiaries, whose operations are integrated with the Company, would be able to continue their operations if the Company went bankrupt. It is worth pointing out that since May 28, 2020, operations in Norway are undergoing corporate reorganisation, see also paragraphs 5.8-13 below.
- 4.5 The Company's current assets mainly consist of stock (mainly clothing) with a book value of approximately SEK 66m. Stocks are always difficult to value in bankruptcy scenarios, especially given the prevailing circumstances of the COVID-19 pandemic. Nor can it be ruled out that other bankruptcies in the retail trade or governmental orders could affect the possibility of selling out the Company's stock in a bankruptcy. In a projected bankruptcy scenario, the Company's stock has been assigned a value corresponding to half of the book value. It should be noted that there are at present major problems associated with selling out a very large stock quickly. It is likely that a bankruptcy trustee must liquidate the stock for a significantly longer period of time than is normally the case, and at high costs since staff must be hired, rent paid etc. Stock valuation is also in line with similar reorganisation and bankruptcy cases (see, among others, MQ and Intersport). Moreover, large parts of the stock at warehouses are handled by the external warehouse-keeper Nowaste Logistics and a bankruptcy raises a number of issues regarding the warehouse and stock management, and it cannot be ruled out that this will make it difficult for a bankruptcy manager to liquidate stock kept at the external warehouse quickly and cost-effectively.
- 4.6 Furthermore, the Company has accounts receivable of approximately SEK 800t from external parties, which are valued at a standard rate of 50 percent of the nominal value. Receivables of approximately SEK 3m from franchisees are considered to be significantly more uncertain in the event of the Company's bankruptcy and have been valued at 10 percent of nominal value. It is estimated, however, that the receivables of approximately SEK 4m that the Company has from Klarna and which also relate to invoices from e-commerce are, in principle, able to accrue without encumbrances to the Company in the event of a bankruptcy. Intra-group receivables have been assessed to be of no value, since a bankruptcy in the Company would probably be in connection to the bankruptcy of other Group companies.
- 4.7 Advances and deposits to suppliers relate, inter alia, to goods paid in advance. In a bankruptcy, these have been valued at 40 percent of the book value. Prepaid costs include the Company's current assets. Such items lack value in a bankruptcy. Credit card receivables have been assessed to be able to fully accrue to the Company even in bankruptcy.

- 4.8 The Company also has a not insignificant cash balance which, at the balance sheet date, amounted to approximately SEK 46m (however, the cash balance fluctuates daily, as does the stock balance, since the operations are ongoing). This is largely due to the fact that the reorganisation was initiated just before salaries were paid out in March, such that these salaries, instead of being paid by the Company, were covered by the state wage guarantee. However, it can be noted that salary guarantees for the period after reorganisation must now be re-paid in full, and not, as was previously the case, be subject to a composition settlement with creditors (consequently this period's salary guarantee is under priority, and not under non-priority, liabilities). Thus, the wage guarantee to some extent only provides a liquidity relief. It should also be noted that under current circumstances, a liquidity reserve is needed, partly because it cannot be ruled out that a second wave of the Corona pandemic could occur in the fall and winter.

Liabilities

- 4.9 An estimated bankruptcy trustee fee of approximately SEK 9m has been included as a priority debt (however, it is actually a bankruptcy expense, which has been included as a debt here to illustrate the effect of a bankruptcy). Vacation debt owed to employees has also been included as a "priority" in the reorganisation scenario, since the Company, in order to retain and motivate staff, does not intend to make any composition on owed vacation time that is not covered by the salary guarantee. However, this vacation time debt is not prioritised in the event of bankruptcy.
- 4.10 In order to make purchases from suppliers in Asia, the Company must exhibit so-called "LC / Letter of Credit", i.e. bank guarantees, to the suppliers for these to deliver. This is how deliveries were handled and paid even before the reorganisation. Thus, there is nothing that deviates from normal routines. During the reorganisation, Danske Bank issues LCs but the Company must place 40 percent of the secured sum in a special escrow account at the bank, in addition to the reorganisers granting the bank super-privilege right for any residual debt that the bank cannot get covered by the escrow account, as well as the bank, through the LC, owning the actual shipment of goods. The preferential right is limited to USD 1,450,000. For precautionary reasons, 60 percent of the amount outstanding in LC on the balance sheet date is included in the estate inventory as debt with a super-preferential right. This is reported in gross figures, by reporting the entire outstanding LC debt on the liabilities side, while at the same time entering the escrow account funds on the asset side.
- 4.11 Among the non-priority liabilities are, among other things, the Company's accounts payable, which at the date of the reorganisation amounted to approximately SEK 18m, distributed among approximately 160 creditors. The Swedish state has through the Swedish Tax Agency approximately SEK 46m in claims for wage guarantees as well as taxes and fees.

- 4.12 The largest single creditor in the reorganisation is the Parent Company with approximately SEK 53m in receivables, in addition, other Group companies in the Group have approximately SEK 20m in receivables, of which the Norwegian subsidiary accounts for approximately SEK 17m (see more about this in section 5.8). The intra-group receivables participate in the composition and have the right to vote but will waive the composition payment.
- 4.13 In the event of bankruptcy, the Company will be notified of significant additional liabilities that are not included on the balance sheet, in part because leases will be cancelled prematurely and claims will be brought against the Company as a result. In order to make the bankruptcy scenario feasible, damages have been calculated based on 24 months' rent, which in the current market climate must be considered reasonable (landlords have an obligation to limit the damage and try to rent out the premises as quickly as possible). The damages to the landlords have in the estate inventory been divided between such leases that have already been agreed to be cancelled prematurely, approximately SEK 18m, and such contracts where the intention, at least if the leasing negotiations are successful, is to remain in the premises, approx. SEK 60m.
- 4.14 In the event of bankruptcy, a new salary guarantee will also be granted to the employees. This will burden the Company by approximately SEK 19m.
- 4.15 The Company has outstanding balances with customers of approximately SEK 5m, which the Company continues to redeem during the reorganisation. However, these debts are non-priority in a bankruptcy.

Guarantee commitment to Danske Bank and bondholders

- 4.16 The Group is mainly financed by Danske Bank and by a corporate bond listed on Nasdaq OMX (ISIN: SE0010625830) for a total of approximately SEK 490m, of which the bank accounts for approximately SEK 90m (the credit limit is, however, slightly higher) and the corporate bond SEK 400m. The bond is owned, in more than half, by the Stockholm Consumer Cooperative Society and Spiltan Fonder. The credits are entered in the Parent Company. According to an exceedingly comprehensive financing agreement, which is not easily accessible to an outsider, the Parent Company has pledged the shares in its subsidiaries, including the shares in the Company, as collateral for current loans. The operating subsidiaries of the Group, including the Company, have in addition guaranteed the Parent Company's debts. According to the financing agreement, Danske Bank and the bondholders can therefore make direct claims against the Company and other subsidiaries under the guarantee commitment.
- 4.17 As far as could be deduced, the relevant credits in the Parent Company are older and must have originally been raised to finance the acquisition of the JC Group about 15 years ago. When parts of the JC Group were subsequently sold by the

Parent Company, the acquisition credit was not resolved, but prolonged in the Parent Company. The credits can thus not be derived directly from the financing of the Company's, or other subsidiary's, operations (although the Parent Company is a major creditor in the subsidiary's reorganisations). Therefore, the reorganisers have continued on the assumption that the guarantee undertaking did not have a purely commercial character for the Company, and that the undertaking is thus covered by the Companies Act's (Swedish: aktiebolagslagen) rules on transfer of value in Chapter 17 of the Companies Act.

- 4.18 The undertaking would thus, as a result of these rules, be valid only within the framework of non-restricted equity at the time when the Parent Company's credit was last rescheduled and the guarantee commitment was made on 30 January 2018 (see the Swedish Supreme Court's decision NJA 1995 s. 418). In so far as can be deduced, the Company's capital amounted to approximately SEK 123 m at this time. However, it should be emphasised that the aforementioned is an estimate that does not lack elements of uncertainty; thus, it cannot be ruled out that the guarantee commitment has been purely commercial in nature for the Company, and thus that the entire guarantee commitment of approximately SEK 490m would be valid.
- 4.19 It should also be noted that the assessment is also based on the fact that the credits were refinanced as of 30 January 2018 with brand new creditors and terms. This would thus be a *new* guarantee, which may be regarded as being entered as of the aforementioned date. However, the guarantee commitments from Departments & Stores Europe AB and Brothers AB (but not the Company) have been included in previous credit packages, and it can therefore not be ruled out that the guarantee commitments, as far as these companies are concerned, may be considered entered into at an earlier date and only *confirmed* in the new financing package in January 2018. It can thus be an earlier date, when equity is likely to have been larger, that is relevant to determine the size of a guarantee commitment that had cover in equity. What the relevant time is can also have a bearing on the question of whether the guarantee commitment was entered out of a commercial nature or not.
- 4.20 It should also be noted that the Parent Company entered into a so-called "standstill agreement" with Danske Bank concerning the bank's credits, which in any case is valid until September 30, 2020. The principal owners of the bond, Konsumentföreningen Stockholm and Spiltan, who represent a majority of the bond, have not announced that they require any active measures to be taken under the financing agreement with the Parent Company or the reorganisation companies under the aforementioned guarantee commitments. The reorganisers perceive that Konsumentföreningen Stockholm and Spiltan contribute to a constructive dialogue concerning the reorganisations in the Group.

- 4.21 However, these positions and perception that suggests that one, for the time being, does best by “not rocking the boat” will reasonably be altered in the event of bankruptcy in the Company or in other companies in the Group - since such an event would have a significant effect on the creditor's security pool and position. For the sake of prudence, therefore, the requirement of SEK 123m, as per the assessment above, which can be raised against the Company under the financing agreement's guarantee commitment, has been included in the estate inventory's bankruptcy scenario. It is possible that the effect of the claim can be mitigated to some extent by the fact that any distribution in the Company's bankruptcy could be reclaimed as a right of recourse by the other guarantors in the Group. However, the effects in this regard are highly uncertain and could not be accounted for in the framework of the estate inventory, especially as a bankruptcy scenario could also include other guarantors.
- 4.22 Based on the estate inventory for the composition, the reorganisers estimate that in the event of bankruptcy, the distribution to unsecured creditors would be lower, especially taking into account the uncertain financial situation. Thus, the composition proposal described above will mean better distribution than the projected outcome in a bankruptcy. As previously mentioned, it cannot be ruled out that the entire guarantee commitment of approximately SEK 490m (SEK 510m if the credit limit is fully utilized) against Danske Bank, and the bond, could be valid - which could have very a significant impact on the outcome of a bankruptcy.

5 PURPOSE OF REORGANISATION AND OPERATIONAL MEASURES

Purpose of reorganisation

- 5.1 The purpose of the company reorganisation is to carry out a financial and operational reorganisation of the Company's (and the Group's) financial position and operations.
- 5.2 Through the financial and operational measures that the Company intends to implement during the reorganisation, the Company expects to be able to overcome the liquidity crisis that the Company is currently experiencing, and to achieve long-term profitability and stability.

Operational measures

- 5.3 As of the reorganisation day, the Company had 52 stores distributed between just under 30 property owners. The Company has decided to close its stores in Borås, Bromma Stockholm, Halmstad, Hansa Malmö, Hede Kungsbacka, Helsingborg, Ingelsta Norrköping, Karlstad, Kista Stockholm, Norrköping, Torp Uddevalla, Vällingby Stockholm, Växjö, Örebro och Örnsköldsvik, thus 15 stores. These stores have been assessed not to be able to reach profitability, not even in the long term. The vast majority of the stores, 13, have already been closed and only a few, 2,

are in the process of being closed down. As soon as the winding-up is completed, the premises will be made available to the landlords. Negotiations will take place with the impacted landlords on what remaining sums of rent will be allowed to be monitored in the reorganisation. It is not considered economically feasible, if the reorganisation should be carried out, that the impacted landlords should be able to monitor rent for the entire remaining lease period as well as damages in the reorganisation.

- 5.4 As concerns the landlords for the remaining stores, the Company has called for negotiations with all of them. Significant concessions are required from the landlords in order for the Company to cope with the reorganisation in the short term and in the longer term to achieve sustainable profitability. During the reorganisation, the company has entered into agreements with the absolute majority of the landlords regarding significant rent reductions for the current calendar year 2020. In most cases, the landlords have been accommodating and have shown understanding for that the rents were unsustainable, given the prevailing circumstances. Only in a few cases do agreements still need to be reached.
- 5.5 In early autumn, the Company will call for rental negotiations for the coming calendar year 2021. There is no indication that the Corona effects will subside in the near future and the Company considers it necessary to extend the rent reductions for at least the coming year.
- 5.6 In the event that the rental negotiations do not yield the desired outcome, further store closures may be actualised. The situation is so serious that no rental contracts are sacred or protected from this scrutiny. Landlords continuing to be accommodating and accepting rent reductions in the future is the basis for the Company's continued operations and future profitability. Otherwise, the purpose of the reorganisation may be jeopardized.
- 5.7 One thing that has complicated the negotiations with the landlords is the fact that considerable uncertainty surrounded the support package announced by the Swedish government; several landlords have declared themselves unable to grant any rent reductions until the support packages have been specified - which is very unfortunate.
- 5.8 The operations of the subsidiaries that operate stores abroad are scrutinised. In principle, these businesses must stand on their own and survive without financial support from the Company.
- 5.9 The subsidiary operating in Norway, Polarn O. Pyret AS, has initiated reorganisation under Norwegian reorganisation legislation on 28 May 2020. A reorganisation has been deemed necessary to save significant values in the Norwegian operations, which otherwise risk eroding with a bankruptcy. Reorganiser of the Norwe-

gian company is lawyer Håvard Wiker, Ro Sommernes Advokatfirma. The reorganisation comprises a total of 21 stores, of which at least 10 stores are as of now set to be closed down and 11 retained. Norway has now opened up society after a period of more or less complete shutdown. After the reopening, sales have gained good momentum in the Norwegian stores.

- 5.10 A special issue bearing on the reorganisation of the Norwegian subsidiary concerns a parent company guarantee which the Company issued to the subsidiary in October 2019. The guarantee, entitled "Letter of financial support", has been issued after the auditors in the Norwegian company requested one in order to submit a clean audit report from a "going concern" perspective.
- 5.11 The guarantee is extremely brief, and it is therefore not entirely clear what it intended or what exactly it intended to cover in a situation like the one at hand. However, it must be considered clear that, through the guarantee, the Company undertook to support the subsidiary financially, which means that the Company must cover the subsidiary's debts. The Company and the reorganisers have received a statement from the Professor of Civil Law Göran Millqvist who is of the opinion that the guarantee constitutes an undertaking in accordance with what is said for the Company - it should not, however, be possible for the subsidiary's creditors to make direct claims against the Company under the guarantee.
- 5.12 The subsidiary's reorganiser has announced that the subsidiary may require, and in the Company's reorganisation monitor, approximately SEK 17m under the guarantee. In addition, it has been clarified that the amount that would result from the composition payment on such a claim, approximately SEK 4.2m, is in any case needed as a contribution to the Norwegian reorganisation in order to reorganise the subsidiary - otherwise the reorganiser will not stand behind a continued reorganisation and a composition, but instead advocate a bankruptcy.
- 5.13 It is also relevant that the Company, due to goods deliveries, has approximately SEK 10m in counterclaims against the Norwegian subsidiary, which the Norwegian reorganiser means that the Company should refrain from using for set-off (since the guarantee according to him reasonably must be considered to have this meaning).
- 5.14 The Company and the reorganisers have decided, for both legal and business reasons, to approve the Norwegian reorganiser's proposal, in order to save the values at stake in the Norwegian operations, and because a bankruptcy would risk values that significantly exceed the sums of the contributions now being discussed.
- 5.15 Foreign franchisees are furthermore affected by the Company's reorganisation. The Company expects significantly lower sales and thus deliveries to the franchisees in the future, and it cannot be ruled out that the Company needs to review

the terms of the claims that the Company currently has against the franchisees (which, however, in this context amount to a smaller sum).

- 5.16 The company is negotiating with the partner with which it operates, under a franchise arrangement, the business in Finland, since the partner, which currently owns 49 percent of the joint Finnish sales company whilst the Company owns 51 percent through a wholly owned Swedish subsidiary, may call for a put option, which means that the Company (or in practice the wholly owned subsidiary) is forced to buy the remaining shares at a predetermined value that is based on the results of recent years. The Company wants the option to be postponed to the future.
- 5.17 The Company has terminated all store employees and re-hired them at lower employment rates, and also regulated the staffing requirement by not taking in hourly employees. Comprehensive trade union negotiations, which have been held in a constructive spirit, have recently ended. With these measures, the Company deems the personnel force to have been adequately adapted to the prevailing circumstances.
- 5.18 In the short term during the acute COVID-19 crisis, the number of hours worked in stores are expected to decrease by approximately 55 percent compared to the same period last year, which means that labour costs are estimated to decrease by approximately 20-25 percent during the period April to August 2020. During the coming fiscal year 20/21, labour costs are expected to decrease by approximately 15 percent, as an effect of several stores closing during the reorganisation
- 5.19 Negotiations are underway with the Company's suppliers on discounts on goods purchased, but not yet received, by the Company. The purchasing budget for the autumn / winter season 20 has been revised and adjusted according to future sales assumptions. In total, purchasing needs are estimated to decrease by approximately 30 percent compared to previous assumptions. Parts of the warehouse stock are now relocated to be closer to the customer, which in the current market situation means that warehouse stock are moved from store to central warehouse to be made available for e-commerce. Stockholding will also be streamlined and the tied-up of stocks reduced by hard-to-sell items being put up for sale on "outlets".
- 5.20 The Company has already made major investments in e-commerce, especially with regard to its own e-commerce platform www.polarnopyret.se, but also on external partners/trading platforms such as Amazon, Zalando and Boozt. This work will continue and be intensified during the reorganisation. The Company has also decided to invest in e-commerce in Germany in the near future. The Company intends to become an e-merchant at every level; not just be a retailer who also has e-commerce. This is a consequence of both the ongoing pandemic and the long-term changing patterns of trade among consumers.

- 5.21 The Company will sharpen its marketing efforts. In the future, the focus will be on digital channels to drive sales in e-commerce in particular. Furthermore, it is considered necessary in current market conditions to work with campaigns to drive sales in both retail and e-commerce - which in turn will lead to an increased price reduction rate and reduced gross profit margins. To drive sales, free shipping is offered to everyone and free returns in e-commerce for customers in the customer club.
- 5.22 A positive part of the Company's operations is that e-commerce has doubled in sales since the COVID-19 pandemic became acute. Under the extreme circumstances, e-commerce accounts for approximately 65-70 percent of the Company's sales. In the future, sales via e-commerce are expected to decline somewhat as store sales are likely to recover. But for the financial year 20/21, the Company's e-commerce is estimated to grow by approximately 45 percent compared with the previous year as of March 2020. In the future, the Company thus predicts a significant growth in sales in both new and existing e-commerce channels.
- 5.23 Other costs such as cleaning, IT services, etc., shall be reviewed and reduced. However, the increased focus on e-commerce will lead to higher logistics costs in the future. With regard to COVID-19, the Company has temporarily suspended the opportunity to pick-up e-commerce purchases in the physical store, which also leads to increased transport costs. In the future, the Company will budget a 30-35 percent increase in logistics costs, in line with the expected sustained increase in e-commerce sales. For the financial year 20/21, the Company has budgeted for a 10 percent increase in logistics costs as a result of continued high expectations for e-commerce, but also accounting for the reduced requirements resulting from the Company closing a number of stores.
- 5.24 The Company continues to strengthen its brand, which implies, among other things, continued investments in sustainability. This also has an impact on the product range.

Assumptions about the future and forecasts

- 5.25 The adverse effects of the COVID-19 pandemic are expected to gradually diminish after an initial acute phase. However, it should be emphasised that the forecast, in the same way that applies to business in general, is uncertain. Based on the assessments that the Company has obtained from representatives of the industry, the Company expects that the effects will continue to be extremely noticeable compared to normal operations for a significant time to come.
- 5.26 The Company's forecasts for the current fiscal year 19/20 are therefore based on the assumption of sales remaining at the current levels, which are low in relation to a normal situation. Only during later parts of the autumn will the Company expect

to be able to return to a more normal turnover. Part of the sales loss seen in stores has been compensated by increased sales in e-commerce.

- 5.27 The Company expects to reach sales of approximately SEK 460m for the current financial year. Gross margins are expected to deteriorate, because in order to drive sales in the prevailing market climate, campaigns and offers, which entail lower prices to customers, must be deployed.
- 5.28 The Company expects the aforementioned operational reorganisation measures for the period April – August 2020 to result in a cost savings of approximately 15 percent. However, this is not enough to fully compensate for a decrease in sales and in gross profit margin. Operating profit (i.e. profit before extraordinary items) is forecasted to amount to a loss of approximately SEK 5m. However, a future composition settlement with creditors, and the gains that result from that composition, are deemed to be able to compensate for this operating loss in terms of profit.
- 5.29 As regards the forecast for the coming financial year 20/21, this is based on an assumption of a gradual return to normal sales in stores. Only after the end of the year 20/21 are sales expected to return to a normal situation, but even then, the Company expects a more long-term sales reduction of approximately 15 percent. Sales for the financial year are estimated to amount to approximately SEK 430m (excluding sales to subsidiaries), given that a number of stores have closed. However, the remaining stores should be profitable as the staff and rental level are adjusted to long-term sustainable levels. The savings and profitability improvements that result from the operational reorganisation measures will mean that the Company is able to show an operating profit for the financial year of approximately SEK 4m.

Financial measures

- 5.30 Based on what is said above, it is considered necessary that the Company enters into a composition settlement with the creditors regarding a write-down of the Company's liabilities through the composition which is being offered. Without a write-down of old liabilities and a corresponding improvement in the balance sheet, the Company will not have long-term ability to manage the business.

6 AUDIT REVIEW, RECOVERABLE TRANSACTIONS, ETC.

- 6.1 There have been no reasons for remarks on accounting, financial reporting or internal financial control. As the Parent Company is listed on the stock market, the Company faces reporting and auditing requirements that far exceeds what is required by law. The accounting risks should thus be low.

- 6.2 The reorganisers have been assisted by the Authorized Public Accountant David Olow at KPMG during the review at hand. Olow has also assisted in the investigation of the guarantee commitments entered into by the Company, and other operating companies, as part of the financing package with Danske Bank and the bondholders, of approximately SEK 490m (and which are reported above).
- 6.3 No recoverable transactions have been found. There is also no reason to believe that crimes under Chapter 11 of the Penal Code (Swedish: brottsbalken) has been committed.

7 FINAL COMMENTS FROM THE REORGANISERS

- 7.1 According to the present liquidity forecasts, the Company is able to finance its operations during the reorganisation. The Company has implemented a large number of operational measures to ensure continued operations, in particular closing stores and terminating redundant staff. The budgets for the future in the longer term that have been developed show that the Company will be able continue to operate in the future. The greatest element of uncertainty and future risk concerns the effects of the Corona pandemic on society and the economy.
- 7.2 According to the current liquidity budgets, the Company will also be able to finance the composition payment. The composition payment has been scheduled at a time when the Company should have good liquidity. As far as we can assess, the composition proposal is to the clear advantage of the creditors, especially when the bankruptcy alternative involves a number of uncertainties about outcome and processing times. We therefore support the composition proposal at hand from the Company.
- 7.3 The reorganisers have updated the timeline for the reorganisation, see [Appendix 3](#). As can be seen from this, the reorganisers intend that composition negotiations can be held in court in mid-October, that a composition enters into legal force three weeks thereafter, and that the composition payment, which follows from the composition proposal, is to be paid as soon as possible but no later than January 31, 2021.

8 QUESTIONS, INFORMATION, ETC.

- 8.1 The reorganisers and the Company will continuously inform about the reorganisations and publish relevant reorganisation documents on the following website:
<https://www.rnb.se/en/Reorganisation/>
- 8.2 The website also contains questions and answers on how the reorganisation can affect you as a supplier and creditor, among other things, regarding continued deliveries to the Company during the reorganisation and how invoicing and payment

is done. The website also contains contact information for the Company and the reorganisers.

Malmö / Stockholm, July 1, 2020



Ola Sellert



Mats Emthén

The above composition proposal (see paragraph 2.1) is hereby confirmed.

Stockholm, July 1, 2020

POLARN O. PYRET AKTIEBOLAG



Kristian Lustin



Johan Munck af Rosenschöld

Bolag: Polarn O. Pyret AB

Belopp: Tkr

Balansräkning**2020-05-31**

Balanserade utgifter	26 458
Hysesrätter	167
Goodwill	0
Inventarier	11 335
Andelar i koncernföretag	21 713
Andra långfristiga fordringar	6 760
Uppskjuten skattefordran	
Summa anläggningstillgångar	66 433
Färdigvarulager	91 488
Kundfordringar	3 812
Fordringar hos koncernföretag	14 138
Skattefordran	2 890
Övriga fordringar	231
Förutbetalda kostnader och upplupna intäkter	33 299
Kontokortsfordringar	4 463
Likvida medel på Danske Bank (som tillhör koncernkrediten)	45 676
Övrig kassa & bank	0
Summa omsättningstillgångar	195 996
Summa tillgångar	262 430
Aktiekapital	1 000
Överkursfond	
Uppskrivningsfond	
Reservfond	400
Balanserat resultat	70 013
Årets resultat	16 308
Summa eget kapital	87 721
Summa obeskattade reserver	0
Summa långfristiga skulder	0
Leverantörsskulder	45 708
Skulder till koncernföretag	55 379
Övriga skulder	36 051
Upplupna kostnader och förutbetalda intäkter	37 572
Summa kortfristiga skulder	174 710
Summa eget kapital och skulder	262 431

Företagsrekonstruktion

Bilaga 2

Ackordsbouppteckning

POLARN O. PYRET AB

Bokförda värden enligt prel balansräkning 2020-05-31 i tkr

Kompletterande aktuella uppgifter har inhämtats från leverantörsreskontra och skattekonto

Tillgångar	Bokfört värde	Konkursvärde
Anläggningstillgångar		
Balanserade utgifter	26 458	2 646
Hysesrätter, goodwill	167	17
Inventarier	11 335	1 134
Andelar i koncernföretag	21 713	0
Omsättningstillgångar		
Lager butiker	19 922	9 961
Lager på extern logistikcentral	45 880	22 940
Kundfordringar, externa	804	402
Kundfordringar, franchisetagare	3 002	300
Klarna, kontokort, fakturor e-handel	4 468	4 468
<u>Kundfordringar, koncern</u>		
Departments & Stores Europe AB	698	0
RNB Far East Ltd	1 301	0
PO.P Norge	12 140	0
Förskott (varor på väg) och depositioner leverantörer	21 911	8 764
Förutbetalda kostnader och upplupna intäkter	15 594	0
Kassa, bank, klientmedel mm	45 676	45 676
Summa tillgångar	231 070	96 308
Skulder		
Förmånsberättigade skulder		
10 § 2 FRL och 10 § 4 p FRL	0	9 000
Reservering för konkursförvaltarearvode mm.		
Danske Bank - Limit rembursar (14 mkr)	10 000	10 000
12 § FRL, lön etc		
Tjänstepensioner: Collectum, FORA	870	870
Semesterlöner inkl soc avgifter	5 793	
Beräknad lönegaranti 1 mån bruttolön samt lönefordringar utöver taket men inom LAS	7 797	1 449
Summa förmånsberättigade skulder	24 460	21 319
Ej förmånsberättigade skulder		
18 § FRL		
Leverantörer (ca 160 st)	18 553	18 553
Skatteverket inklusive beräknad lönegaranti	46 230	46 230
Skulder anställda lönefordringar utöver lönegaranti		1 725
RNB Retail and Brands AB	53 301	53 301

Kids Company Oy	1 784	1 784
PO.P International Soumi AB	1 092	1 092
PO.P International, IP, UK, OTH	200	200
PO.P Norge	16 888	16 888
Borgensåtagande för RNB Retail and Brands AB avseende SENIOR SECURED FLOATING RATE NOTES (400 Mkr) och SUPER SENIOR OVERDRAFT AND GUARANTEE (120 Mkr). Utnyttjad kredit 490 mkr		122 969
Beräknat skadestånd 2 år uppsagda hyresavtal under företagsrekonstruktionen		18 306
Beräknat tillkommande skadestånd 2 år samtliga hyreskontrakt vid konkurs		60 440
Lönegarantiskuld avseende tid efter beslut vid konkurs		6 348
Semesterlöner etc vid konkurs		5 793
Ny beräknad lönegaranti 3 månader vid konkurs		19 044
E-presentkort, Retain24	4 784	4 784
Upplupna kostnader mm	12 973	12 973
Inom linjen		
Garantier mot norska hyresvärdar och norska Tullverket om totalt 5 091 tkr		
Garantier mot svenska Tullverket om 4 625 tkr		
Summa oprioriterade skulder	155 805	390 430
Summa skulder	180 265	411 749
SAMMANFATTNING		
TILLGÅNGAR	231 070	96 308
SKULDER	180 265	
varav förmånsberättigade	24 460	21 319
varav ej förmånsberättigade	155 805	390 430
UNDERSKOTT/ÖVERSKOTT	50 804	-315 442

Steg och tidslinje i företagsrekonstruktionerna i Departments & Stores Europe AB, Brothers AB and Polarn O. Pyret AB

The steps and timeline of the company reorganisation for Departments & Stores Europe AB, Brothers AB and Polarn O. Pyret AB

23 mars/March 23

Ansökan om företagsrekonstruktion gavs in till Stockholms tingsrätt

The application was filed for company reorganisation to the District Court of Stockholm

23 mars/March 23

Tingsrätten beslutade att:

A – bevilja ansökan om företagsrekonstruktion

B – förordna rekonstruktörer (advokaterna Ola Sellert och Mats Emthén)

C – bestämma tid för borgenärssammanträde, den 29 april

the District Court decided to:

A – grant the application for company reorganisation

B – appoint reorganisers (Ola Sellert and Mats Emthén, lawyers)

C – schedule a meeting of the creditors on April the 29th

Legala konsekvenser med anledning av beslutet från tingsrätten:

A – skydd mot exekutiva åtgärder från borgenärer

B – skydd mot att avtal hävs av borgenärer

C – skulder som uppkommit före rekonstruktionen får inte betalas

D – leveranser som görs under rekonstruktionen ska betalas i förskott eller kontant eftersom rekonstruktionsbolaget inte får dra på sig nya skulder

E – skulder som uppkommit efter rekonstruktionen och som har skriftligen godkänts av rekonstruktörerna har i händelse av konkurs s.k. superförmänsrätt.

Legal consequences of the decisions made by the District Court:

A – protection from executive measures made by the creditors

B – protection from terminations of contracts by the creditors

C – debts arisen before the reorganization are not allowed to be paid

D – deliveries made during the reorganisation must be paid in advance or cash as the reorganisation company is not allowed to accrue new debts

E – debts arisen after the reorganisation and approved in writing by the reorganisers have a so called “super priority” in the event of bankruptcy

25 mars/March 25

Alla borgenärer har underrättats med:

A – den senaste balansräkningen

B – anledningen till och syftet med företagsrekonstruktionen

C – tiden för borgenärssammanträdet den 29 april

All creditors are notified with:

A – the latest balance sheet

B – the reason for and purpose of the company reorganisation

C – the scheduled meeting of the creditors on April the 29th

29 april/April 29

En preliminär rekonstruktionsplan, innefattande en preliminär ackordsbouppteckning och en beskrivning av vilka operativa och finansiella åtgärder som ska vidtas, publiceras på hemsidan: www.rnb.se/rekonstruktion.

A preliminary reorganisation plan, including a preliminary composition estate inventory and what operative and financial actions are to be taken, is published on the website: www.rnb.se/reorganisation.

29 april/April 29

Borgenärssammanträdet hålls i tingsrätten. Den preliminära rekonstruktionsplanen presenteras för tingsrätten och närvarande borgenärer.

The creditor's meeting at the District Court is held. The preliminary reorganisation plan is presented to the District Court and the attending creditors. The Court decided that the reorganisation will continue for a first period of 3 months, until June the 23rd.

23 juni/June 23

Ansökan om förlängning av rekonstruktionen med ytterligare tre månader.

Application for extension of the reorganisation period for another three months.

1 juli/July 1

Rekonstruktörsberättelse och ett ackordsförslag riktat till samtliga borgenärer med oprioriterade krav har skickats ut till berörda borgenärer.

A reorganisation report and a composition proposal for all creditors with non-priority claims has been sent to the concerned creditors.

oktober 2020/October 2020

(PROGNOS/ESTIMATED) De oprioriterade borgenärerna kommer att få rösta om ackordsförslaget vid ett borgenärssammanträde i tingsrätten. Givet att ackordet antas och inte överklagas vinner det laga kraft 3 veckor därefter.

Efter att ackordet vunnit laga kraft kommer tingsrätten besluta om att företagsrekonstruktionen ska upphöra. Detta innebär att bolaget kan gå tillbaka till normala betalningsrutiner och åta sig skulder på sedvanligt sätt gentemot leverantörer och andra.

(ESTIMATED) The unprivileged creditors will take a vote on the composition proposal at a meeting of the creditors at the District Court. Given that the composition is accepted and not appealed, the composition enters into legal force after three weeks.

After the composition has entered into legal force, the District Court will decide to end the reorganization. This implies that the company can revert to normal payment routines and also undertake customary debts towards suppliers and others.

31 januari 2021/

January 31, 2021

Ackordslikviden kommer betalas så snart som möjligt efter att ackordet vunnit laga kraft dock senast den 31 januari 2021.

The composition settlement will be paid as soon as possible after the composition has entered into legal force, but no later than January 31, 2021.