Company Description
Securities Note

June 2021

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Investing into debt securities involves risks. While every care has been taken to ensure that this Company Description presents a fair and complete overview of the risks related to the Issuer, the operations of the Issuer and its subsidiaries, and to the Notes, the value of any investment in the Notes may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in the Company Description.

RESPONSIBLE PERSONS

The Issuer and its management board are responsible for the information contained in this Company Description and Securities Note (Terms of the Notes Issue signed on January 29, 2021) in the attachment. The financial data in the Company Description and Securities Note is presented in the US dollars, which is Issuer's functional currency.

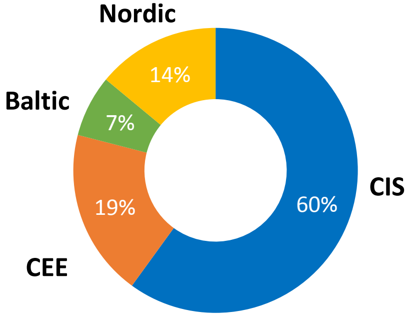
Hereby we, members of the board of AS "ELKO Grupa", Egons Mednis, Svens Dinsdorfs, Vadims Rabša, Mārtiņš Ozoliņš, certify that, by paying sufficient attention to this purpose, the information included in the Company Description and Securities Note is true, in accordance with the facts, and no information which may affect its meaning is concealed therein.

________________	________________	________________	________________
Egons Mednis Chairman of the board	Svens Dinsdorfs Member of the board	Vadims Rabša Member of the board	Mārtiņš Ozoliņš Member of the board

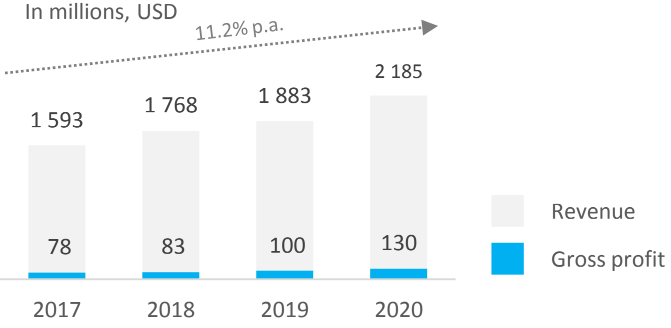
Executive Summary

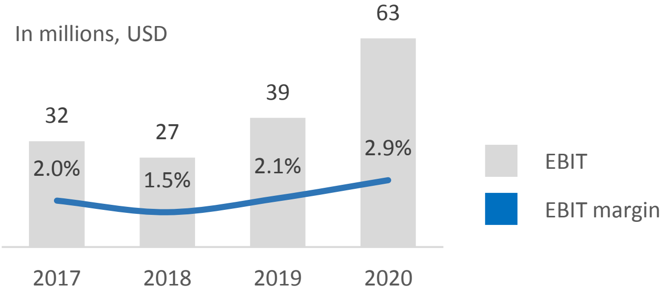
ELKO Operating Markets

Sales by Region



Growing and Profitable





Core Brands

Regional leader

- ELKO Group was founded in 1993 and is one of the largest IT distributors in the Northern-European region
- ELKO Group offers more than 40 000 IT and electronics products from more than 400 global manufacturers

Strong financials

- The Group's consolidated turnover has been growing at 11.6% p.a. since 2015 and reached USD 2bn in Nov 2020
- During 2020 the Group reported EBIT of USD 63m and net income of USD 35m
- Group's working capital exceeds USD 200m and book equity exceeds USD 100m
- For 27 years ELKO demonstrates perfect creditworthiness record – never defaulted or delayed any of its liabilities

Partnerships

ELKO Group is an exclusive regional distributor for 31 global brand and has strong vendor relations with its largest suppliers Apple, Huawei, Intel, Samsung and many more

Group Overview

Key Milestones

Since its launch, ELKO has become one of the leading IT companies in Northern and Eastern Europe, with a turnover exceeding $2 billion

ELKO GROW SMARTER

1993 — Founded in Riga, **Latvia**

1994 — Opens subsidiaries in **Lithuania** and **Estonia**

1995 — Opens subsidiary in **Russia**

1998 — Opens subsidiary in **Ukraine**

1999 — Opens subsidiaries in **Romania** and **Slovenia**

2000 — Opens subsidiaries in **Slovakia**

Creates holding company ELKO Grupa AS (ELKO Group)

2005 — Private equity funds East Capital and Amber Trust acquire 25.5% in the company

Becomes the largest company in Latvia (by consolidated turnover)

2007 — The first Latvian company whose turnover exceeds USD 1 billion.

2008 — EUR 6.5m bonds listed on Riga Stock Exchange

2015 — Opens subsidiary in **Czech Republic**

Acquires «DL Distributors» in **Estonia**

2016 — EUR 8m bonds listed on Nasdaq Baltic

2017 — Enters **Nordic-region** market by acquiring «Gandalf Distribution» AB in Sweden

Activates sales in **Poland** by establishing a subsidiary

2018 — Acquires distributor «Absolut» in **Russia**

Acquires distributor «Arašid» in **Slovakia**

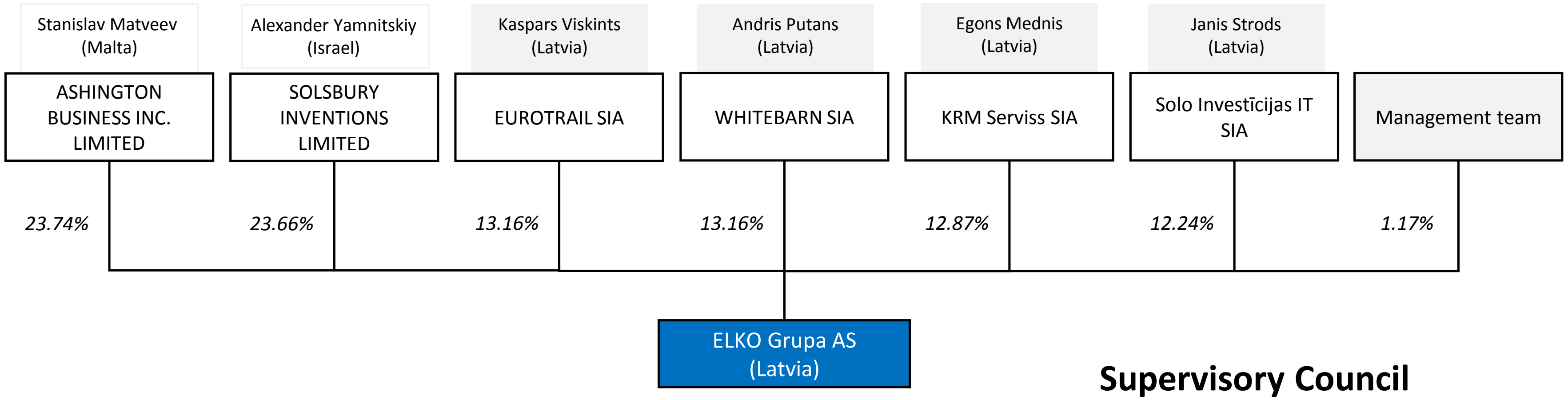
2020 — Achieved turnover of USD 2 billion in November 2020

2021 — EUR 20m bonds listed on Nasdaq Riga First North

OWNERSHIP STRUCTURE

ELKO IS A JOINT STOCK COMPANY REGISTERED IN LATVIA, OWNED BY LOCAL (MAJORITY) AND INTERNATIONAL INVESTORS

Latvian ownership



- **Egons Mednis**, **Eriks Strods**, **Andris Putans** and **Kaspars Viskints** founded ELKO Riga SIA in 1993 with a vision of distributing IT products in the Baltic region, a market which was then still very much in its infancy.
- The success of early regional growth led to subsequent expansion and, in 1995, ELKO began operations in Moscow (Russia), a result of successful collaboration with a local reseller. With the addition of new partners, the Company expanded business activities to St. Petersburg (Russia) and Kiev (Ukraine) during the next four years.
- Private equity firms **Amber Trust** and **East Capital** made their initial investment into ELKO Group in 2005 acquiring 25.5% stake and providing growth capital supporting the Group's successful development.
- In 2013, East Capital has successfully exited ELKO Group, 8.8% equity interest was sold to existing ELKO Group's shareholders.
- In 2019, Amber Trust II successfully exited ELKO Group by selling 17.7% equity interest to existing ELKO Group's shareholders.

Supervisory Council

Andris Putāns - Chairman of the supervisory council
Education – Higher education diploma from Riga's Polytechnic Institute
Experience – Co-founder of ELKO Grupa, current ultimate beneficiary
Holds 1,302,762 A category shares (indirectly)

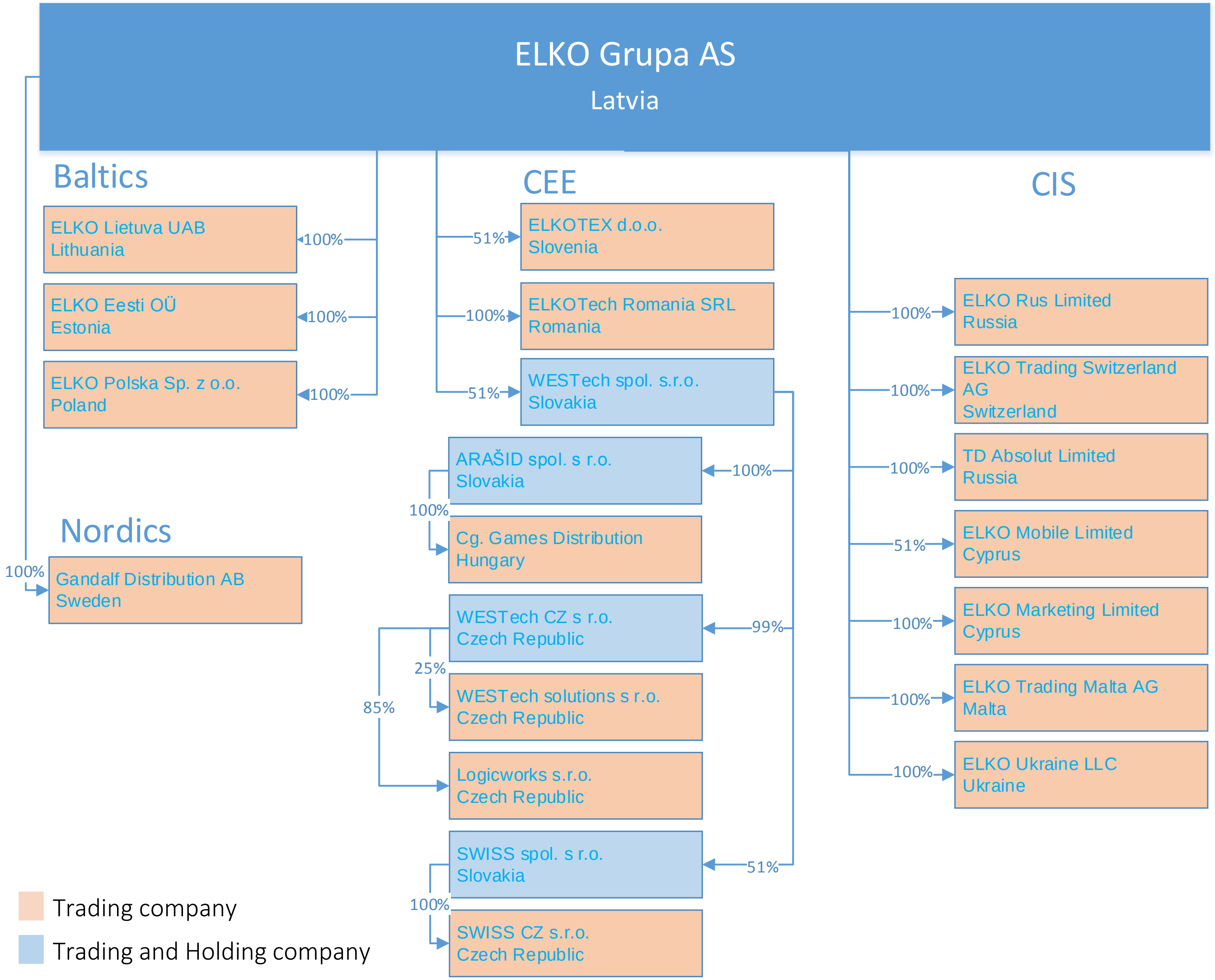
Kaspars Viškints - Member of the supervisory council
Education – Higher education diploma from Riga's Polytechnic Institute
Experience – Co-founder of ELKO Grupa, current ultimate beneficiary
Holds 1,302,762 A category shares (indirectly)

Ēriks Strods - Member of the supervisory council
Education – Higher education diploma from Riga's Polytechnic Institute
Experience – Co-founder of ELKO Grupa,
Does not hold any shares of ELKO Grupa

Edgars Kvālis – Member of the supervisory council
Education – Riga, Technical University, SSE Riga, Baltic Institute of Corporate Governance
Experience – Former CFO of ELKO Grupa, currently member of the board of ENERGOREMONTS RIGA
Does not hold any shares of ELKO Grupa

Group Structure

ELKO Group consists of parent company ELKO Grupa AS and 21 subsidiaries



ELKO Grupa AS is the parent company of the Group and operates as a trading and holding company.

Subsidiaries operating as trading companies have local management that reports to Group HQ.

Trading companies operate with their own stock and use Group resources for logistics.

Baltic subsidiaries operate as representative offices in each Baltic state.

In July 2017 ELKO Group AS acquired 85% of shareholding in Gandalf Distribution AB (Sweden) and in 2019 acquired the remaining 15%.

In June 2018 ELKO Group AS established in ELKO Polska Sp. z o.o. in Poland with 100% of shareholding.

In January 2018 ELKO Group AS established ELKO Trading Malta Limited with 100% of shareholding.

In June 2018 ELKO Group AS acquired 100% of shareholding in TD Absolut Llc (Russia).

Group Presence

HEADQUARTERED IN LATVIA, ELKO HAS SUBSIDIARIES IN 14 COUNTRIES AND SALES IN 31 COUNTRIES

Nordic Region

One of the leading distributors of computer and peripheral products in Sweden

Present also in Norway, Denmark, Finland.

Baltic Region

Latvia, Lithuania and Estonia.

Top 3 distributor in the Baltic region.

Widest and most balanced product portfolio.

CEE Region

Romania, Poland, Slovakia, Czech Republic and Slovenia.

Top 3 distributor for each of its key vendors in the countries in which ELKO operates.

Apple Premium reseller and B2B solutions provider in Slovakia and Czech Republic.

Mobile & Gaming retail operation in Slovakia and Czech Republic.

CIS Region

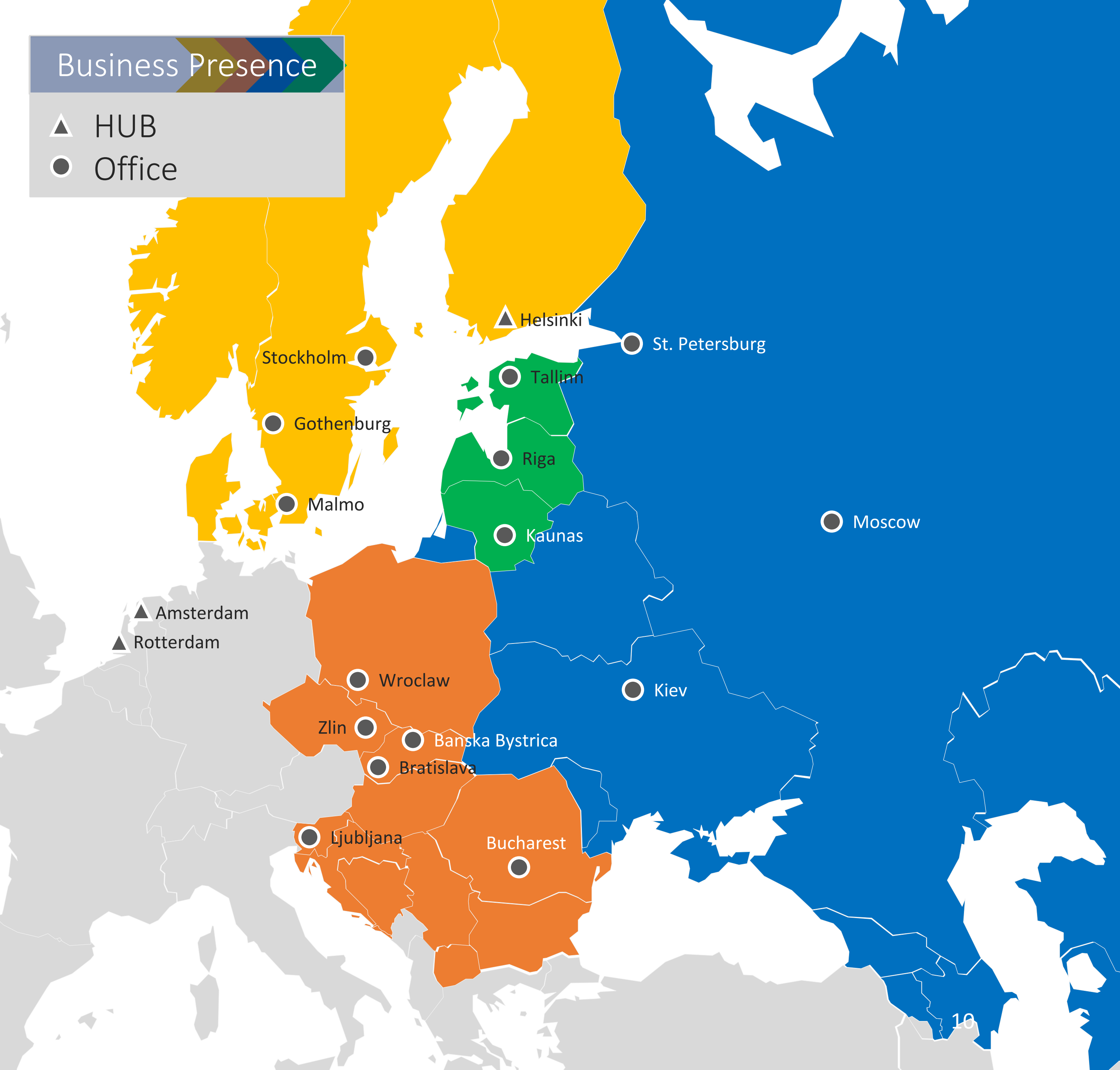
Present in Russia and Ukraine.

Top 3 distributor in Russia and Ukraine for each of its key vendors.

Smartphones business driving growth.

Strongest PC Components Partner of Key Vendors.

White goods distributor TD Absolut acquired in 2018.



Management

ELKO IS MANAGED BY PROFESSIONALS WITH LONG-TERM EXPERIENCE IN THE RESPECTIVE FIELD

ELKO GROW SMARTER

EGONS MEDNIS
Chairman of Board, President, Co-founder

EXPERIENCE

ELKO Grupa AS Chairman of Board, President
Since 12/2000

ELKO Riga SIA, Director
03/1998 – 12/2000

ELKO Riga SIA, Sales Director
05/1993 – 03/1998

EDUCATION

Holds a higher education diploma from Riga's Polytechnic Institute / Faculty of automatics and computer technology (1992)

SHARES

1,274,223 A category shares (indirectly)

SVENS DINSDORFS
Member of Board, CEO

EXPERIENCE

ELKO Grupa AS, CEO, Member of the Board
Since 01/2015

ELKO Grupa AS Finance Director, Member of the Board
04/2006 – 01/2015

EDUCATION

Holds an MSc from Stockholm School of Economics (2003) and BSc from Stockholm School of Economics in Riga (1998)

SHARES

57,995 personal non-voting shares

VADIMS RABSA
Member of Board, CFO

EXPERIENCE

ELKO Grupa AS, Member of Board, CFO
Since 03/2017

VP Holding LLC, Chief Finance Officer, Member of the Board
05/2016 – 03/2017

JSC Grindex, Member of Board, CFO
06/2007 – 01/2016

EDUCATION

Holds a BSc from Stockholm School of Economics in Riga (2000)

SHARES

12,888 personal non-voting shares

MARTINS OZOLINS
Member of Board, Acting Commercial Director

EXPERIENCE

ELKO Grupa AS, Acting Commercial Director
Since 07/2017

ELKO Grupa AS, Deputy Distribution Director
01/2016 – 06/2017

ELKO Grupa AS, Regional Director
04/2015 – 12/2015

ELKO Grupa AS, Head of Treasury
07/2010 – 03/2015

EDUCATION

Holds an MBA from Riga Technical University (2007) and BSc from Stockholm School of Economics in Riga (2002)

SHARES

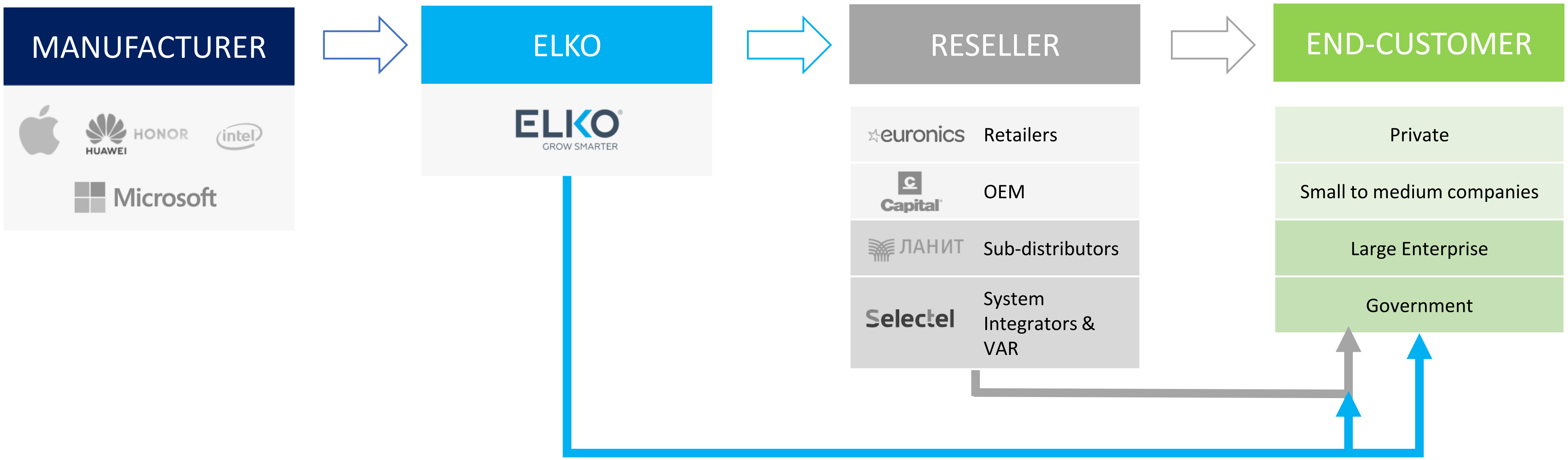
12,888 personal non-voting shares

Business Overview

ELKO Business Model

ELKO Group is one of the region's largest distributors of IT and consumer electronics products and solutions

ELKO Group reaches end consumers via resellers and direct sales channels
The Group bridges the gap between large manufacturers and regional resellers



Business Segments

The Group's main business is IT products, but it is also growing other business lines – consumer electronics and solutions

IT products

Well-built portfolio for

	Turnover 2020, M USD	
Mobile Communication	582.7	27%
Components	572.5	26%
Personal Computing	301.2	14%
Software and more	60.2	3%
		70%

Consumer electronics

Fast-rising segment of

	Turnover 2020, M USD	
Domestic Appliances	217.8	10%
Home & Office Electronics	195.5	9%
TVs and more	140.6	6%
		25%

Solutions

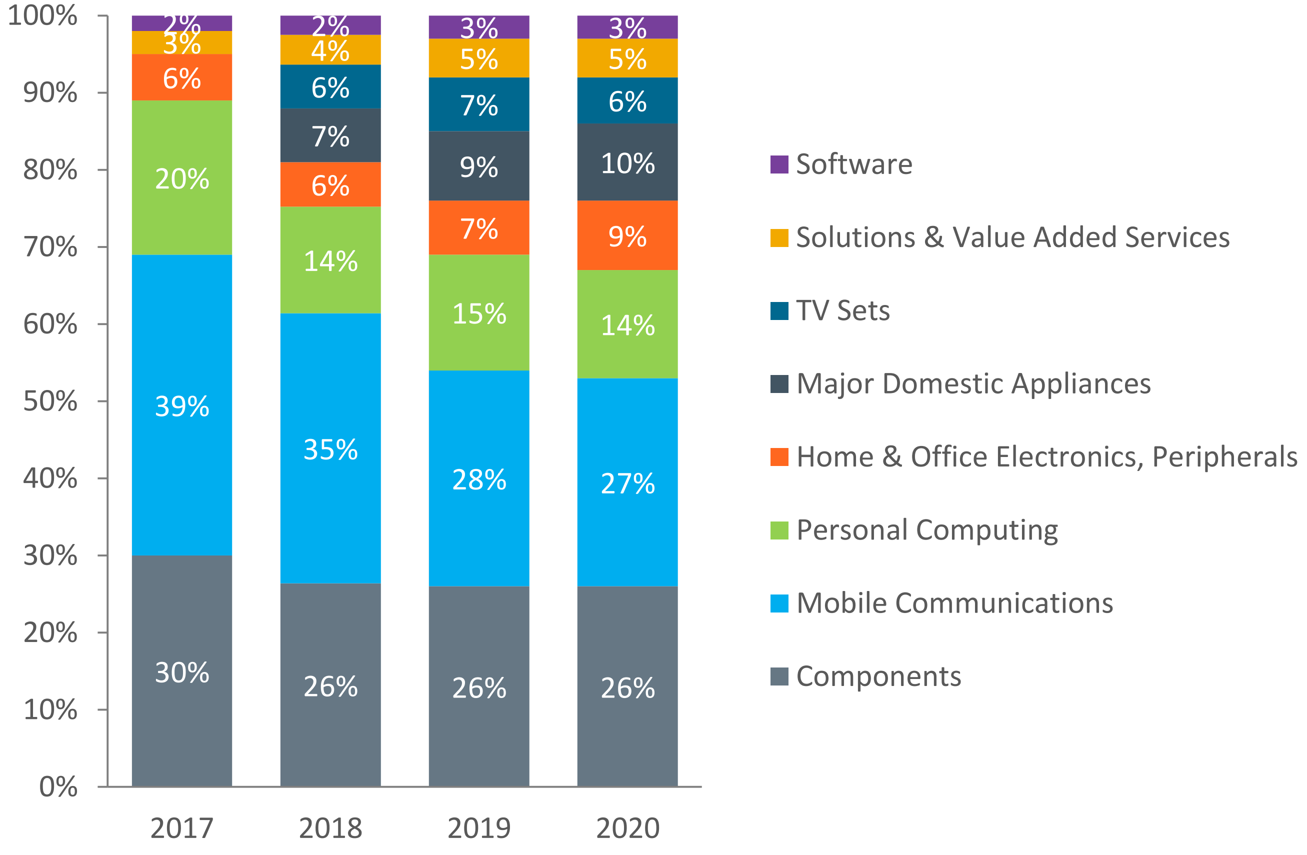
Serving projects in fields like

- Security Systems
- Data Centre Infrastructure
- Industrial Automation
- Others

$\left.\right\}$ Turnover 2020, M USD: 119.2 (5%)

Diverse Product Range

ELKO Group distributes more than 40 thousand IT and Consumer Electronics products from 500+ leading IT manufacturers



- During the years ELKO Group has added new product groups and decreased reliance on sale of computer components and mobile communications
- The Group actively seeks new product opportunities to increase its regional presence and operational diversification
- Development of product range is in line with the industry trends

VENDORS

ELKO LONG TERM RELATIONSHIPS WITH VENDORS PROVIDES DE FACTO EXCLUSIVE DISTRIBUTION RIGHTS FOR A VARIETY OF BRANDS

ELKO aims to be Top 3 distributor for each major brand within each region. For 31 brands in selected markets ELKO is the only sizeable distributor - for example, Lanner for Russia, MSI for Baltics, Roborock for Sweden, Romania Slovakia and Slovenia.

Long-term relationships with the largest vendors

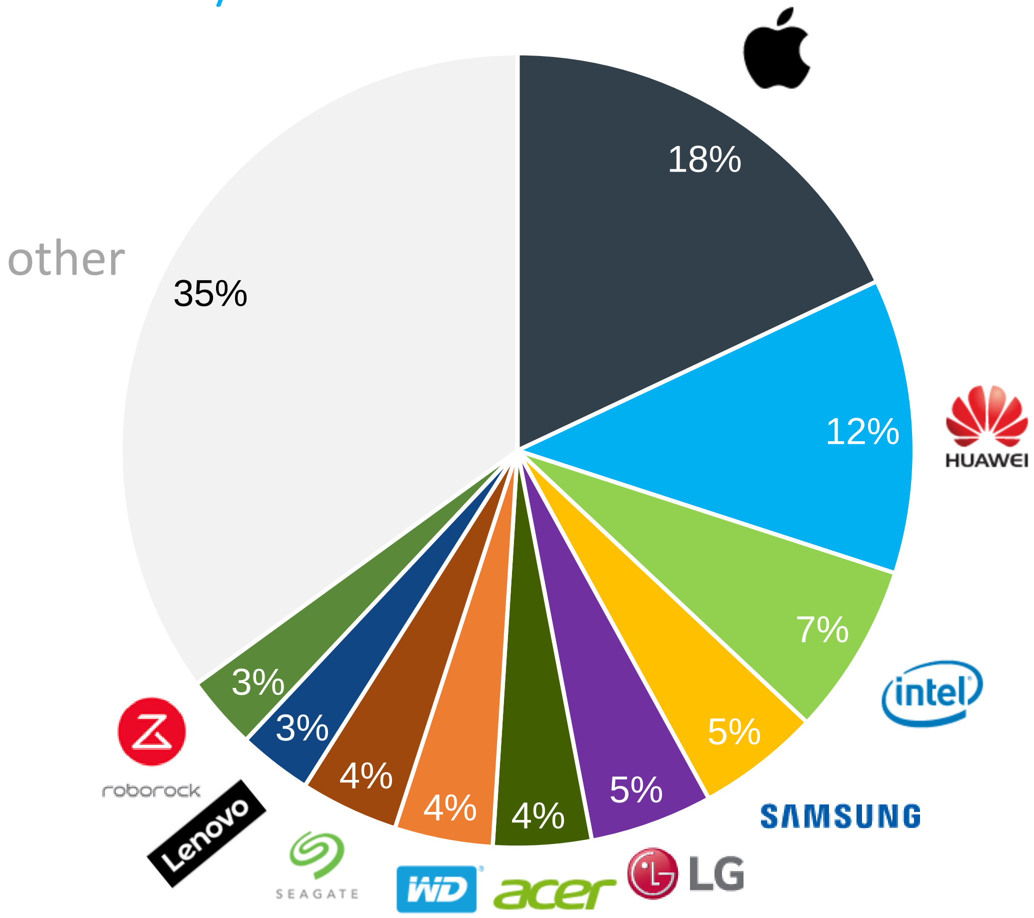
Branded vendors	Components	Solutions	Household appliances
	intel	Microsoft	roborock
HUAWEI HONOR	SEAGATE	Lanner	LG Life's Good
acer	WD	HUAWEI	SAMSUNG
HUAWEI	GIGABYTE	AXIS COMMUNICATIONS	beko
Lenovo	AMD	UBIQUITI NETWORKS	бирюса
SAMSUNG	msi	SUPERMICRO	CANDY
LG Life's Good	Kingston TECHNOLOGY	DELL	ATLANT
ASUS	TOSHIBA	Getac	GEFEST
mi	SAMSUNG	Lenovo	PHILIPS
THOMSON	SanDisk	AEWIN	gorenje

Sales by Vendor

Products from top 10 largest vendors account for 65% of ELKO Group sales

ELKO GROW SMARTER

Sales by vendor in 2020



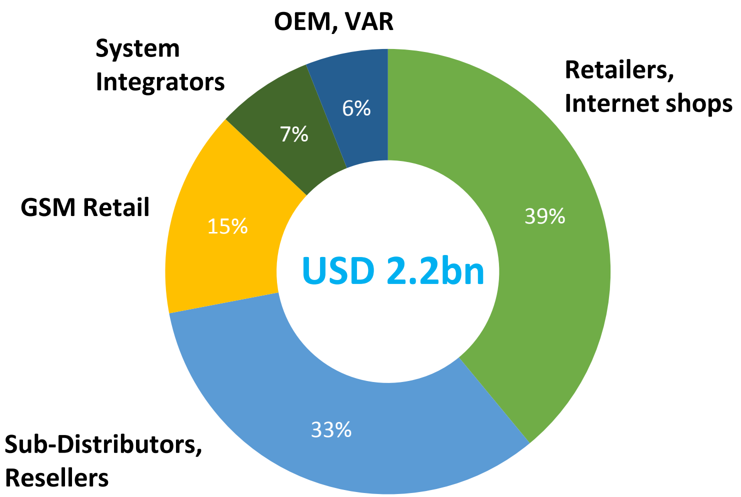
ELKO actively seeks vendor diversification to limit single-vendor concentration below 20-25% share

	2017	2018	2019	2020
Apple	18%	14%	16%	18%
Huawei	8%	23%	17%	12%
Intel	7%	6%	7%	7%
Samsung	2%	4%	4%	5%
LG	1%	4%	5%	5%
Acer	4%	3%	4%	4%
WD	6%	3%	3%	4%
Seagate	4%	4%	4%	4%
Lenovo	15%	5%	3%	3%
Roborock	0%	0%	0%	3%
Top10	65%	66%	63%	65%

TOP CLIENTS BY SALES AND CLIENT TYPE

HIGHLY DIVERSIFIED CLIENT BASE OF REGIONAL LEADERS WITH A MAJORITY OFF-TAKE BY RETAILERS AND RESELLERS

Sales by client type in 2020



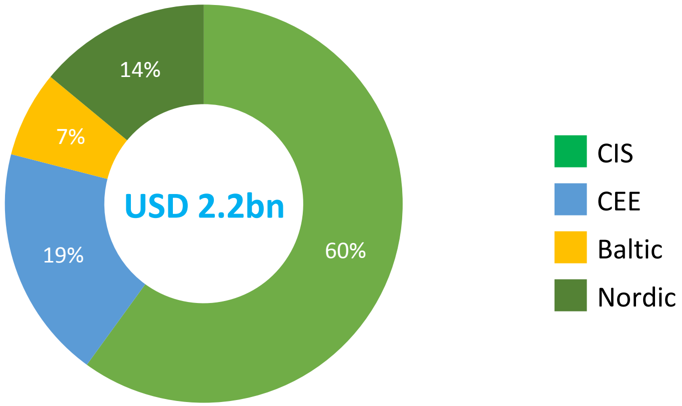
Top clients by client type

TOP 10	Retailers, Internet shops	GSM Retail	OEM, VAR	Sub-Distributors, Resellers	System Integrators
1	DNS	RCS HOLLAND B.V.	AQUARIUS	ORION	SELECTEL LTD.
2	MVIDEO	NEXT CONCEPT	DEPO COMPUTERS	MERLION	KOD BEZOPASNOSTI
3	OZON	TELEPART DISTRIBUTION GMBH	CAPITAL AS	LANIT	RDP
4	NETONNET	PARKTEL SP. Z.O.O.	ARTLINE	3LOGIC	ROSTELEKOM
5	WILDBERRIES	MOBIELWERKT B.V.		ITPARTNER	AMRITA-CS
6	VYMPEL-KOMMUNIKACII	XTG S.A.		NETWORK LABORATORY	INIDA UAB
7	CITILINK	PPA INTERNATIONAL AG		OLIVER MSK	ATEA
8	RBT	NEXT HARDWARE & SOFTWARE SPA		TALMER	TECHSVIT
9	SVYAZNOY	UNITED TRADE GROUP LTD.		TELEMAGIYA	PRIME
10	DANTE INTERNATIONAL S.A.	DEPAU SISTEMAS S.L.		PARTNERSTVO-M	BRAHMS INTERNATIONAL S.R.L.

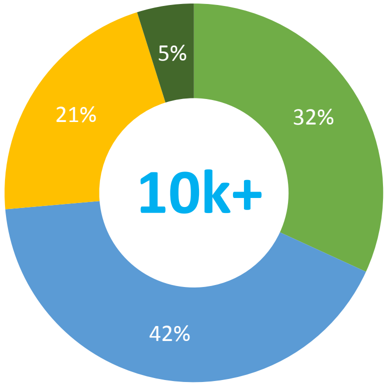
Regional Distribution of Clients

ELKO Group client base has grown from 6.7 thousand clients in 2016 to more than 10 thousand clients in 2020

Revenue distribution by region in 2020



Number of clients by region



Notes:

CIS region - Russia, Ukraine
CEE region - Romania, Poland, Slovakia, Slovenia, Czech Republic
Baltic region - Estonia, Latvia, Lithuania
Nordic region - Sweden, Norway, Finland, Denmark

- ELKO Group has diversified its regional presence within Eastern Europe by expanding its client base throughout the region
- The majority of turnover is generated in CIS region while the majority of clients are in CEE region
- For cross-border deals the regionality of clients and revenues is accounted to the unit which has made the export deal

LARGEST COMPETITORS

ELKO GROUP COMPETES ON AN INTERNATIONAL SCALE

ELKO Group operations span across CIS, CEE, Baltic and Nordic regions. ELKO Group competes with multinationals and large regional players.

ELKO Group strives to be TOP3 distributor in each of its markets and TOP3 with each of its vendors.

LOGISTICS & INVENTORY MANAGEMENT

GROUP HAS LARGE, HIGHLY-EFFICIENT AND INTERNALLY MANAGED LOGISTICS DEPARTMENT

Warehousing

Premises – all rented.

People – internal resources, outsourcing used for peak season and for Transit warehouses.

Equipment – mainly owned.

Procurement – partly organized on Group level via transit warehouses, majority locally purchased.

Stock – owned by ELKO.

Picking – manual with scanners.

Storage risks are fully insured. Regular warehouse security audits are performed, and warehouse security set-up is constantly improved as well as internal security procedures.

Inbound Transportation

- Transportation is fully outsourced (or managed by vendors – depends on Incoterms).
- Only well known and tested partners used for transportation (eg DHL, HRX, DSV, TNT, Schenker, KuehneNagel, Hellmann, Ace Logistics etc).
- For every shipment 2-3 scenarios are evaluated to make the Best decisions – based on price and delivery time aspects. Main transportation modes used – Road, Marine, Air.
- Transportation risks are fully insured (including Transit).

HUB system

Inbound shipping is delivered to *hubs* (located in Netherlands, Finland and Riga, Latvia), and directly to sales offices within operating regions. Hubs are used for further intercompany deliveries to group logistics centers located within each operating region.

Outbound Transportation

- Ukraine and Moscow have own fleet/drivers, other countries – mainly outsourced.
- For Outbound deliveries only stable and tested partners are selected to maintain good cost and service quality balance.
- Transportation risks are fully insured.

IT systems & tools

Core ERP is JDE, also used – MS Dynamics, Qlick View and internally developed tools

Customer Service & RMA

All managed by internal resources.

EMPLOYEES

HIGHLY EDUCATED WORKFORCE, WITH 5+ YEARS AVERAGE EMPLOYMENT TERM

ELKO Group employs almost 1 500 people across its operating region with the majority of employees located in Russia (547) and the Baltics (272).

Highly educated workforce, with more than 70% of employees with higher education.

ELKO maintains high loyalty of employees, especially at senior positions.

ELKO Group HQ is located in Riga, Latvia and employs 160 people. HQ is responsible for IT, corporate marketing, corporate strategy, legal, and vendor relations.

HQ	LOCAL OFFICE
Governance Advantage Accelerator Shared Services	Channel Development Customer Relations
Corporate Strategy	Sales
Purchasing (Vendor Relations)	Purchasing (Local Vendor Relations)
Legal, regulatory, and fiduciary responsibilities	Supply
Corporate Marketing	Local Marketing
IT	

During the COVID pandemic remote work policy has been successfully implemented. Where possible – people work from home.

71% Employees with higher education

38 years Average employee age at ELKO

5+ years Average employment term at ELKO

By department

Logistics	414
Sales	403
Distribution	169
RMA & SOL	167
Finance	121
HR, Legal, Marketing, office	109
IT	77
Executive	22
Total	1 482

By country

Latvia & HQ	246
Russia	547
Slovakia	317
Ukraine	157
Czech Republic	66
Romania	57
Sweden	46
Baltics & Poland	26
Slovenia	20
TOTAL	1 482

Financial Overview

Group Financials

Over the past 5 years the Group has become one of the largest IT distributors in the region

In millions USD

Consolidate Income Statement	2017	2018	2019	2020	Comments
Revenue	1 593	1 768	1 883	2 185	
Cost of sales	(1 515)	(1 685)	(1 783)	(2 055)	Cost of inventory, rent, employee expenses, warehouse costs, transportation costs, depreciation and similar
Gross profit	**78**	**83**	**100**	**130**	
Selling and distribution expenses	(10)	(13)	(12)	(15)	Marketing costs, transportation costs, employee expenses and similar
Administrative expenses	(31)	(42)	(50)	(51)	Employee expenses, rent, depreciation and amortization and similar
Other operating income	0	9	12	13	Gain from foreign exchange, sublease agreements, sale of property and similar operating income
Other operating expenses	(7)	(9)	(10)	(14)	Loss from foreign exchange, impairments, provisions for old inventories and similar operating costs
Operating profit	**32**	**27**	**39**	**63**	
Net financing costs	(15)	(10)	(12)	(15)	
Income tax expense	(2)	(7)	(8)	(13)	
Profit for the period	**14**	**9**	**20**	**35**	

Consolidated Balance Sheet	2017	2018	2019	2020	Comments
Non-current assets	**22**	**7**	**35**	**43**	Starting from 2019 includes capitalized lease values for offices, warehouses, stores and other premises
Inventories	188	171	169	188	
Trade and other receivables	229	247	270	322	
Cash and cash equivalents	34	53	29	45	
Total current assets	**452**	**470**	**468**	**555**	
TOTAL ASSETS	**474**	**477**	**503**	**598**	
Total equity	**112**	**108**	**86**	**119**	Equity converted to EUR is equal to EUR 97.051 million, as of 31.12.2020
Interest bearing liabilities	152	111	120	140	Interest bearing liabilities from banks
Leases	0	0	27	33	Leases based on IFRS 16 treatment of operating leases
Shareholder loans	0	0	33	28	In 2019 equity was partially replaced by subordinated shareholders loans due to tax efficiencies from tax regulation changes in Latvia. Shareholders' loans are subordinated to syndicate loans and will be subordinated to Bond liabilities.
Trade and other payables	210	259	236	278	Taxes, provisions, trade payables and others
Total liabilities	**362**	**370**	**417**	**479**	
TOTAL EQUITY AND LIABILITIES	**474**	**477**	**503**	**598**	

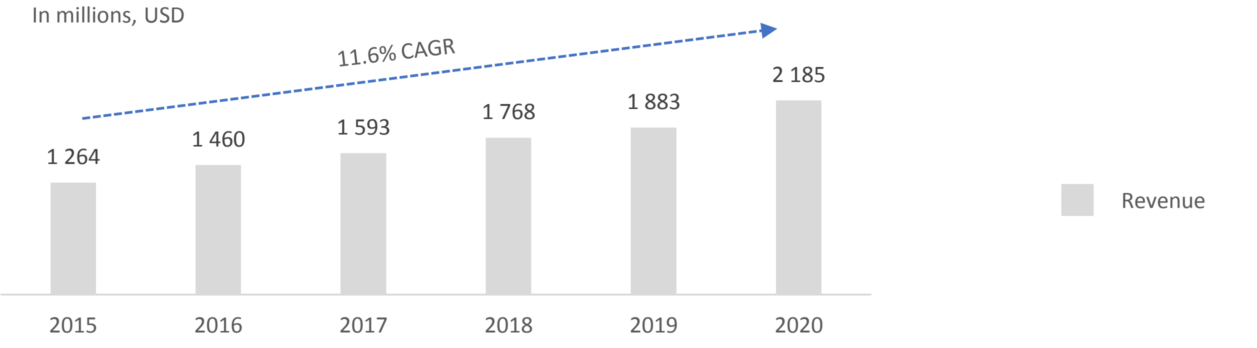
Due to IT wholesale sector specifics, Issuer functional currency is US dollars. As of 31.12.2020, EUR/ USD exchange rate was 1.22710 according to "Latvijas Banka" data.

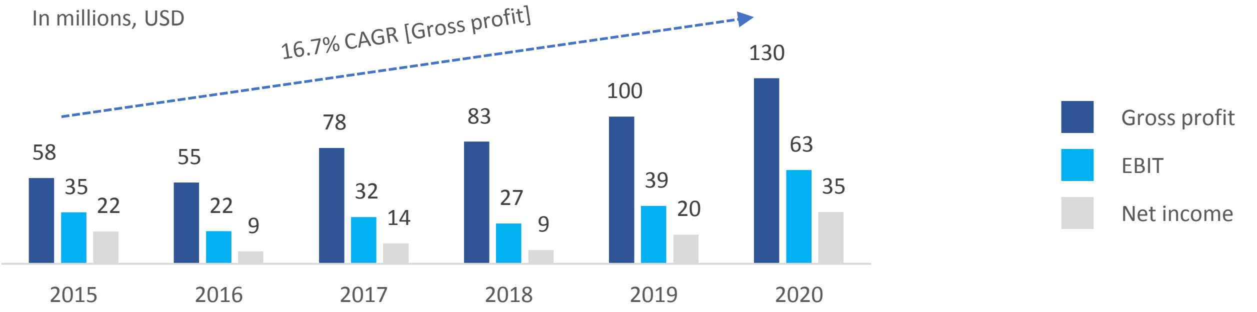
Strong top-line growth

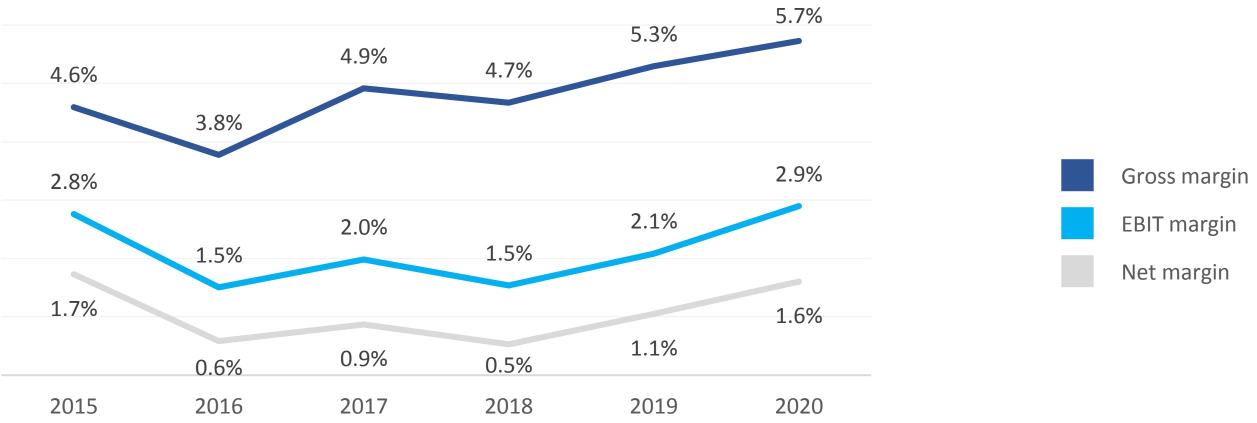
Over the past 5 years the Group has grown by 11.6% p.a.

ELKO Group revenue has had an upward trend since 2009. Over the past 5 years the Group has grown by 11.6% p.a. The growth has been driven by organic growth and M&A transactions for regional expansion, thus the management expects the similar growth in the future.

Due to COVID-19 effects, second and third quarters of 2020 were very challenging. Nevertheless, year-over-year (yoy) operating results have improved significantly.







Financial Standing

ELKO Group's financial strength is improving

ELKO Group has been moderately leveraged for the majority of the past 3 years. The Group uses short-term financing for working capital necessities.

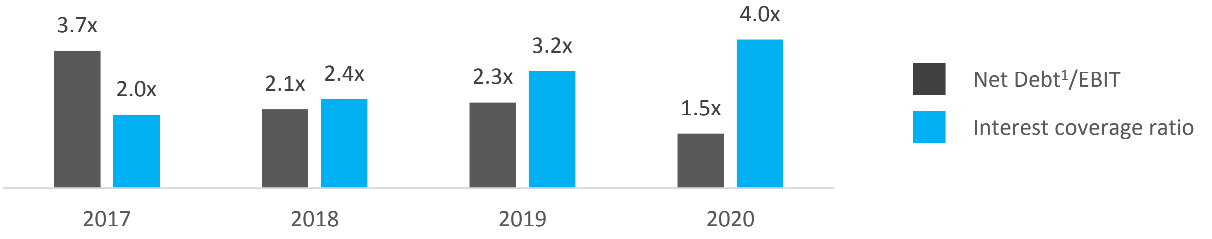
The Group's interest coverage ratio has increased to 4.0x in 2020.

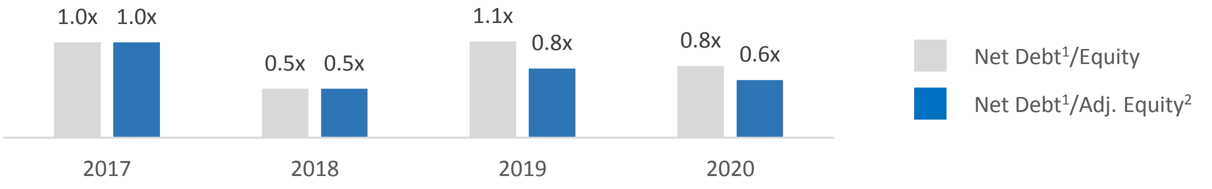
In 2019 equity was partially replaced by shareholders loans due to tax efficiencies arising from tax law regulation changes in Latvia therefore Group's Net debt/Equity position increased in 2019. Shareholders' loans will be subordinated to Bond liabilities. Shareholders' loans are comparable to equity.

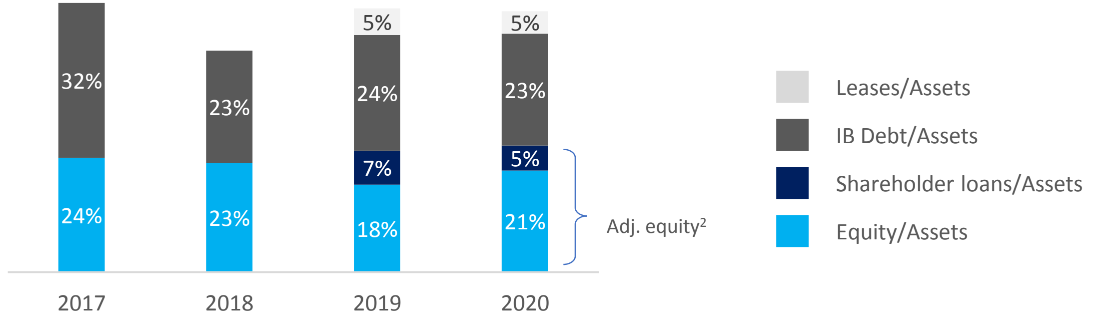
Debt ratio and equity ratios indicate that around 50% of the balance sheet is financed via debt and equity while the rest is mostly a part of working capital financed by the suppliers.

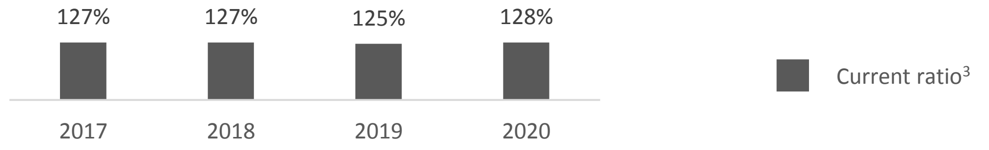
Lease amount on Balance Sheet is based on IFRS 16 treatment of operating leases, mostly lease of premises.

ELKO Group has maintained Current ratio around 125% for the past 5 years. Liquidity is optimal and the Group's working capital is sustainably financed







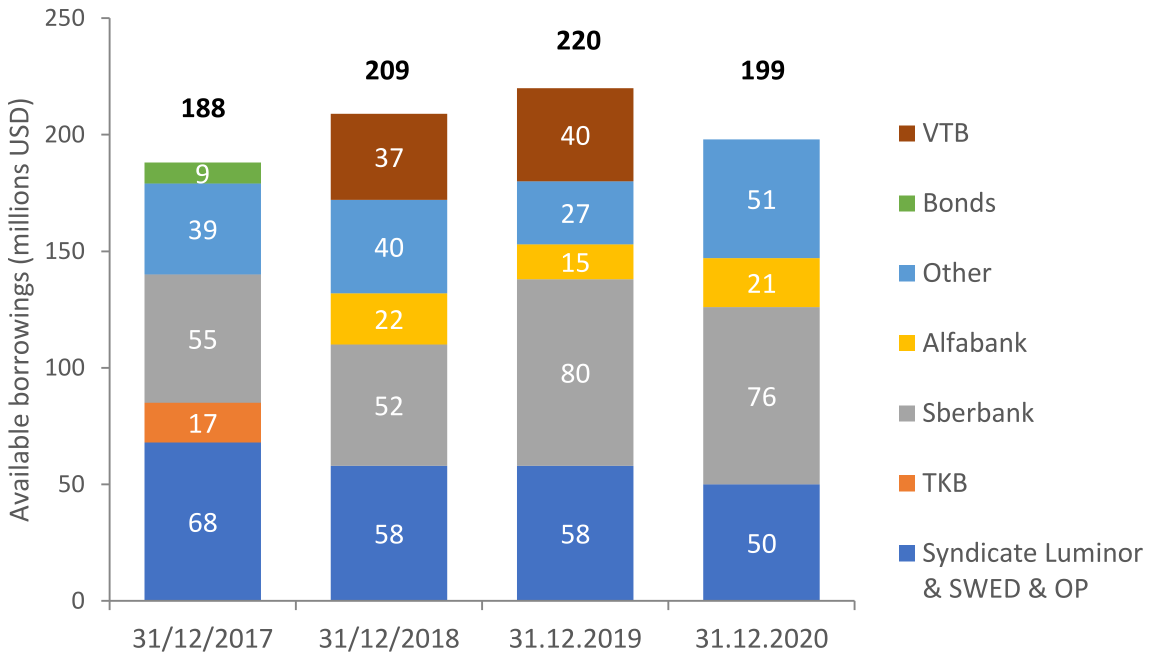


Notes:

1 - Net debt is calculated as Interest bearing on-balance liabilities *less* Cash and cash equivalents. Leases and shareholders' loans are not included in the calculation
2 - Adjusted Equity includes shareholders' loans and excludes IFRS 16 influence
3 - Calculated as current assets divided by current liabilities

Financing limits

Majority of ELKO Group financing is short-term Working Capital financing, funded in local currencies



- Syndicate (Luminor, Swedbank, OP Bank) till Aug 2021, available 50m USD
- Bonds 8m EUR were issued in 2015 and successfully redeemed in 2018
- Financing in Russia is in rubles: Sberbank – 5bn; Alfabank 0.6bn; VTB 2.5bn
- Trade payable financing programs with Deutsche Bank (20m USD) and IGF
- Most of the funding is short term, which is why ELKO wants to issue bonds for long-term funding
- Limits are covered by Working Capital

During 27 years ELKO demonstrates perfect creditworthiness record – never defaulted or delayed any of its liabilities

Listing Disclosures

TRANSACTIONS WITH RELATED PARTIES (1)

As per the last audited report for the year ended 31 December 2020 Issuer had transactions with the following related parties:

Related party	
Parent company's owners:	ASHINGTON BUSINESS INC. LIMITED
	SOLSBURY INVENTIONS LIMITED
	EUROTRAIL SIA
	WHITEBARN SIA
	KRM Serviss SIA
	Solo Investīcijas IT SIA
Companies and individuals under common control or significant influence:	-
Other related companies:	-

TRANSACTIONS WITH RELATED PARTIES (2)

As per the last audited report for the year ended 31 December 2020 Issuer had transactions with the following related parties:

BALANCES		
	31.12.2020	
Related party	Accounts payable (USD thousand)	Accounts receivable (USD thousand)
Parent company's owners:	28 763	
Companies and individuals under common control or significant influence:		
Other related companies:		

TRANSACTIONS		
	31.12.2020	
Related party	Inbound (USD thousand)	Outbound (USD thousand)
Parent company's owners:	5 381	13 754
Companies and individuals under common control or significant influence:		
Other related companies:		

All the transactions have been performed at market rates

OTHER STATEMENTS

ELKO
GROW SMARTER

Legal proceedings and arbitrage

At the moment of preparing this Company Description and Securities Note, the Issuer is not involved in

- any ongoing legal proceedings or any historical legal proceedings from the previous reporting periods against the Issuer,
- any insolvency applications, insolvency proceedings or legal protection proceedings,
- any legal proceedings in connection with fraud or other economic violations in which management board members or supervisory board members or other officials of the Issuer have been involved.

Substantial changes in financial situation of the Issuer

As of the publication of the last financial statement, the financial situation or performance of the Issuer has not worsened. The Issuer is unaware of any factors, claims, obligations, or events which would negatively affect the financial situation or performance of the Issuer in future.

Important agreements

The Issuer has no knowledge of any other important agreements or internal decisions that could have been concluded within the company or between the Issuer and any related company and that could affect the Issuer's capability to fulfil its liabilities due to Investors regarding the securities to be issued.

Significant recent and known trends

During 2020 many economic sectors were affected by Covid-19 virus outbreak. For detailed information on risks see Section 2 "Risk factors" of the Terms of the Issue.
At the moment of preparing this Company Description and Securities Note, the Issuer has no information at its disposal regarding any known trends that have negatively affected the Issuer or the activity, apart from the aforementioned Covid-19 impact.

Bond Issue

373 967
804 029
1 296 731
1 859 317
2 499 808
3 227 076
4 050 935
Investment
424 963
446 211
468 522
491 948
516 545
Start at monthly

Issue Terms of the Notes*

ELKO is a recognized capital markets participant with 2 redeemed bond issues, since 2010

Issuer	**AS "Elko Grupa" (Latvia)**
Type of bond	Unsecured bonds
Seniority of bond	JUND – Junior Debt
ISIN	LV0000870079
Issue size	**EUR 20,000,000**
Annual coupon rate	**6.0%**, semi-annual
Coupon frequency	Semi-annual
Maturity	**12.02.2026, bullet**
Call Option	@104% - 1Y; @103% - 2Y; @102% - 3Y; @101% - 4Y
Put Option	None
Nominal value	EUR 1,000
Minimum subscription amount	EUR 100,000
Admission to trading	Nasdaq Riga First North (alternative market)
Use of proceeds	Working capital financing
Financial covenants	• To maintain consolidated ratio of Equity (Total Equity increased by outstanding subordinated loans) to Assets (Total Assets decreased by IFRS 16 influence) of at least 16%, at the end of each reporting period; • To maintain consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) of at least 1.5x, calculated on the trailing 12 months (TTM) basis at the end of each reporting period;
Arranger and Certified Adviser	Signet Bank AS
Financial Advisor	SIA Callidus Capital

* for full overview please refer to the Terms of the Issue

Certified Adviser

Signet Bank AS acts as the First North Certified Adviser for AS «ELKO Grupa»

- Official name: **Signet Bank AS**
- Registration number: 40003076407
- Main field of activity: Banking services
- Adress: Antonijas iela 3, Riga, LV-1010, Latvia
- Web page: https://www.signetbank.com/

Representative

Edmunds Antufjevs
E-mail: Edmunds.Antufjevs@signetbank.com
Phone: +371 67081058

Certified Adviser and employees of the Certified Adviser do not have any direct or indirect shareholdings in the Issuer and are not represented in Board or Council of the Issuer.

Signet Bank AS is advising AS «ELKO Grupa» with the preparation of admission documents. The agreement is valid from the day of submitting the application for admission to trading on First North to Nasdaq Riga until the actual first trading day of the Notes on First North platform.

INVESTOR RIGHTS*

Investor rights

Any Investor has the right to receive Coupon and Nominal payments in accordance with the Section 4.2.7. “Coupon payments” and 4.2.8. “Procedure of Notes repayment”, as well as exercise other rights fixed in the Terms of the Issue and legislation of the Republic of Latvia.

The Issuer has the rights to purchase Notes on the secondary market directly from Investors. Notes that are purchased by the Issuer are held in Issuer’s financial instruments' custody account and the Issuer has the rights to sell purchased Notes to Investors. The Issuer cannot cancel the purchased Notes held in the Issuer’s financial instruments' custody account, therefore decreasing the size of Notes issue.

Investors have rights to demand early redemption of Notes in case of occurrence of the events of default in accordance with the Section 5.2. “Event of default”.

Within the framework of the issue, it is not planned, yet not prohibited to create an organization of authorized persons which would represent Investors. In case of the insolvency of the Issuer, every Investor has the right to represent his own interests in creditors’ meetings. The Investors will have equal rights for satisfaction of their claims with other creditors in the same claims’ group.

The Notes are freely transferable securities and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under the laws of the Republic of Latvia.

Significant investor rights if Issuer breaches its obligations

The Investor can submit a written notification to the Issuer that the immediate repayment deadline has set in for the Notes owned by the relevant Investor, at any time after the event of default has occurred (and as long as the event of default exists). The Issuer has to pay the Nominal value of Notes along with the accrued Coupon and contractual penalty, in accordance with Section 5.3. “Contractual penalty”, within 5 (five) Business Days after the receipt of the notification.

Each of the events or circumstances set out in below shall constitute an event of default:

- Non-payment
- Breach of covenants
- Cross default
- Insolvency or insolvency proceedings

* for full overview please refer to the Terms of the Issue

Risk Factors (1)

BEFORE DECIDING TO PURCHASE THE BONDS, INVESTORS SHOULD CAREFULLY REVIEW AND CONSIDER THE FOLLOWING RISK FACTORS. SHOULD ONE OR MORE OF THE RISKS DESCRIBED BELOW MATERIALIZE, THIS MAY HAVE A MATERIAL ADVERSE EFFECT ON THE CASH FLOWS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION OF THE ISSUER (ELKO GROUP). MOREOVER, IF ANY OF THESE RISKS MATERIALIZE, THE MARKET VALUE OF THE BONDS AND THE LIKELIHOOD THAT THE ISSUER WILL BE IN A POSITION TO FULFIL ITS PAYMENT OBLIGATIONS UNDER THE BONDS MAY DECREASE, IN WHICH CASE THE BONDHOLDERS COULD LOSE ALL OR PART OF THEIR INVESTMENTS.

Important note

The risks indicated in this section may reduce ELKO Group (Issuer's) ability to fulfil its obligations and cause its insolvency in the worst-case scenario. Bondholders have to take into account that Bonds are not secured with collateral and third parties have not guaranteed Bonds and Coupon payments related thereto.
This section may not feature all the potential risks, which may affect the Issuer.

Macroeconomics

ELKO Group is engaged in distribution of IT hardware, software and consumer electronics with direct presence in fourteen countries. ELKO Group distinguishes four primary regions – the Baltic's (Estonia, Latvia, Lithuania), the CIS (Russia, Ukraine), the CEE (Romania, Poland, Slovakia, Czech Republic and Slovenia) and the Nordic region (Sweden, Norway, Denmark and Finland). During the first 9 months of 2020, most of the ELKO Group's revenue (59%) was generated in the CIS market, CEE region contributed 20% of the total revenue, Nordic region – 14% and Baltics – 7%.
The global economy and most industries have seen strong headwinds since the first quarter of 2020, driven by the outbreak of the novel coronavirus COVID-19. The full impact on economy is still uncertain as new cases continue to increase globally, but it is clear that most nations will see their economies shrink as the global GDP for 2020 is forecasted to decrease by 5.2% according to the World Bank. While some recovery is expected in the following years and first vaccines have been developed, uncertainty remains high.
ELKO Group's business, financial condition, results of operations and cash flows depends on the further growth of each of the countries where ELKO Group distributes products. ELKO Group's revenue and profitability depend on market demand for IT products, which in turn often depends on overall economic conditions in the countries where it operates. Although, the overall impact of Covid-19 was positive on the IT industry and its development, thanks to the accelerated shift to remote working, that in turn significantly increased IT distribution segment's revenue growth, an economic downturn or depression in any of these markets could result in delays or reductions in spending on, or the implementation of, IT by end-users, which could have a material adverse effect on the demand for the products and services offered by the Group, and, therefore, its business, financial condition and results of operations.

Competition risk

The markets in which ELKO Group operates are characterized by rapid technological change, frequent new product introductions, evolving industry standards and changing needs of customers. ELKO Group's competitors include national, regional and international IT distributors. Competition in the market for the distribution of IT products is generally based on vendor and product selection and availability, price, ability to tailor solutions to specific customer needs, service, support and training, willingness to provide credit, ability to provide logistics services on behalf of the vendor and speed of delivery. Product lifecycles are generally short and the pace of technological development is rapid.
To remain competitive and to protect profit margins, ELKO Group must offer new products that keep pace with such developments and must respond to customer requirements on a timely basis. New technologies, changing commercial circumstances (for example, consolidation within a relevant sector), existing competitors (including those with a longer operating history, greater resources and/or broader range of products) and new entrants to the markets in which ELKO Group currently operates or markets in which ELKO Group might target for expansion may adversely affect the Group's business, financial condition, results of operations or prospects. Competition may also come from ELKO Group's vendors, who may directly sell to its end-customers.
In particular, the IT wholesale distribution industry is characterized by stagnating or downward pressure on gross margins primarily as a result of increasing competition within the industry and changes in product mix. There can be no assurance that ELKO Group will manage to mitigate this risk effectively and will not be forced to reduce prices in the future in response to the actions of its competitors and thereby experience decreases in its gross or net margins.

Relations with key vendors

ELKO Group depends on a number of key vendors to purchase particular products in the required quantities and to fulfil customer orders on a timely basis. In the first 9 months of 2020, products purchased from the Group's five largest vendors - Apple, Huawei, Intel, Samsung and ACER - accounted for approximately 20%, 12%, 7%, 5% and 4%, respectively, of ELKO Group's total revenue. Top 10 largest vendors accounted for 65% of ELKO Group's total revenue.
Should ELKO Group experience any prolonged shortages or delays in deliveries by ELKO Group's vendors, the price it pays for those products may increase or the products may not be available at all. Further, a vendor may terminate the Group's right to sell some or all of its products or change the terms and conditions of the vendor relationship or reduce or discontinue the incentives or programs offered. Consistent with standard industry practice, contracts with ELKO Group's vendors are for one-year durations, which are then regularly renewed for subsequent one-year periods. However, there is no guarantee that the contract will be renewed or that the contract will be renewed on existing business conditions (including, but not limited to: stock protection, stock rotation, RMA conditions, rebates, pricing strategy, etc.). Accordingly, if ELKO Group is not able to purchase an adequate supply of products to fulfil the orders of its customers on a timely basis or if there were significant changes in the terms and conditions pursuant to which ELKO Group purchases its products, ELKO Group's business, financial condition, results of operations and cash flows may be adversely affected. ELKO Group has long lasting relationships with all of its main vendors and has an excellent track record of managing these relationships and / or finding adequate replacements thanks to a strong and experienced team of executives. However, the loss of any of these vendors or a combination of other key vendors, and ELKO Group's inability to find adequate replacement products or services on a timely basis, or at all, on commercially acceptable terms, could have a material adverse effect on its business, financial condition and results of operations.

Inventory management

Because ELKO Group maintains certain inventories in order to ensure that the lead times to customers remain competitive, it is subject to the risk of inventory obsolescence. Inventory management is also dependent on seasonality, as the Group has to manage its inventory to meet expected demand. For example, at the end of the third quarter, the Group accumulates larger stock volumes to prepare for the increased demand at the end of the year. ELKO Group's inventory levels were USD 169 million at the end of 2019 and USD 213 million at the end of September 2020.
It is the policy of many vendors of IT products to offer distributors limited protection from the loss in value of inventory due to technological change or such vendors' price reductions. For example, ELKO Group can receive a credit from certain vendors for products, based upon the terms and conditions contained in agreements with those vendors, in the event of a vendor price reduction. In addition, ELKO Group has a right to return to a limited number of vendors a certain percentage of purchases. These policies are often not embodied in written agreements and are subject to the discretion of the vendors. As a result, they do not protect ELKO Group in all cases from declines in inventory value. ELKO Group offers no assurance that the price protection offered by some of its vendors will continue or that it will successfully manage existing and future inventories. If major vendors decrease the availability of price protection to ELKO Group, such a change in policy could lower ELKO Group's gross margin on products it sells or cause it to record inventory write-downs. ELKO Group is also exposed to inventory risk to the extent that vendor protections are not available on all products or quantities and are subject to time restrictions. In addition, during an economic downturn, it is possible that prices will decline due to an oversupply of product, and therefore there may be greater risk of declines in inventory value. ELKO Group actively monitors the situation and quality of its warehouses, as well as manages inventory risks through procurement processes. However, if ELKO Group fails to successfully manage inventory obsolescence risks, its business, financial condition and results of operations may suffer.

Financial leverage

ELKO Group's business model depends on the ability to distribute large quantities of products. In order to achieve this ELKO Group utilizes credit lines of several banks in Latvia, Russia, Romania, Ukraine and elsewhere. ELKO Group's borrowings, excluding lease liabilities and loans from shareholders, were USD 120 million at the end of 2019 and USD 145 million at the end of September 2020.
Credit lines are usually secured with inventory and accounts receivables with typical maturity of one year. ELKO Group's relations with commercial banks are important for future development. Each year ELKO Group negotiates the terms of the respective credit lines. There is no assurance that the Issuer is able to continue borrowing from the banks on favorable conditions.

RISK FACTORS (2)

Foreign exchange risk

ELKO Group mostly trades in local currencies, while its liabilities are denominated in multiple currencies, USD being the main one. The company mitigates foreign currency risks with systematized hedging strategies. Main risks are associated with Russian Rouble (RUB), Euro (EUR), Ukrainian Hryvnia (UAH) and Romanian leu (RON). Currency risk for RUB, EUR, PLN and UAH is assessed daily while the risk for RON is assessed three times per week, and weekly for SEK and subsequent actions are taken to mitigate indicated risk.

At the end of 2019 borrowings, excluding lease liabilities and loans from shareholders, were denominated in various currencies: 40% in RUB, 23% in USD, 15% in EUR, 9% in SEK, 7% in UAH, 5% in RON. As of 30 September 2020, borrowings, excluding lease liabilities and loans from shareholders, were denominated as follows: 51% in RUB, 27% in USD, 11% in SEK, 6% in EUR, 3% un UAH, 3% in RON.

To cover currency risks ELKO Group accounts all positions, then uses natural hedging instruments (loans, factoring, accounts payable matching with inventory and accounts receivable) and lastly closes the remaining open position with forwards. ELKO Group's main counterparty for forwards is Deutsche Bank.

Dependence on warehouse and logistics partners

ELKO Group relies almost entirely on arrangements with third-party warehouse and shipping companies for the storage and delivery of its products. Consistent with industry practice, ELKO Group's contractual arrangements with such third-party providers are mostly signed for a period of up to 5 years, after which the contracts are renewed. ELKO Group is the anchor lessee in the warehouses it has contractual arrangements with, significantly reducing the risk of unexpected negative changes in rent and increasing the probability of successful contract renewals. However, there is no guarantee that the contract will be renewed. In case of contract termination, ELKO Group would have to relocate its products to a new warehouse. Although, this process could cause disruptions to ELKO Group's business, the stored products have almost no specific storage requirements, facilitating the process. The termination of these arrangements with one or more of such third-party warehouse and shipping companies, or the failure or inability of one or more of these third-party warehouse and shipping companies to deliver products from vendors to the Group, store the products or deliver products from the Group to its customers could cause a disruption in its business operations and harm its reputation and results of operations.

Dependence on managing employees

In the future, the Issuer's activities will be affected by its ability to attract, preserve, and motivate highly qualified and experienced personnel. There is competition for personnel with the relevant skills and experience in Latvia (main office) and in other countries, and it is comparatively high; however, the Issuer has successful experience in the field of personnel management, offering education, professional growth, and development possibilities, as well as different motivation programs to the employees.

At the end of 2020, ELKO employed almost 1,500 full time employees. Most of employees are located in Russia (547), Slovakia (317), Latvia (246) and Ukraine (157).

Operational risks

Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful inner processes, personnel management, systems, or external circumstances. The Issuer's employed 1,482 employees at the end of 2020; thorough personnel selection is carried out, accurate descriptions of job duties are compiled, division of duties is coordinated, constant investments are made within the IT system, which allows the Issuer to reduce operational risks.

In response to the Covid-19 pandemic, ELKO implemented remote work policies, where it was possible and most office employees switched to working from home, as all systems are remotely available. Contactless shipping and receiving of goods was introduced at all warehouses.

Taxation risk

ELKO operates in various countries with diverse sets of tax regimes. Changes to local tax regimes or challenges to the current tax structures of the ELKO Group's business could have material adverse effect on its business, financial condition, or results of operations. Additionally, certain tax positions taken by the ELKO require the judgement of management and, thus, could turn to be inefficient or challenged by tax authorities due to possible erroneous interpretation of tax legislation.

IT Systems

ELKO depends on certain key information systems to manage its operations, in particular Oracle JD Edwards Enterprise One for ERP (enterprise resource planning) and warehouse management and locally adapted and, in some cases, internally developed accounting platforms for sales. Any failure or significant disruption in ELKO Group's information systems could prevent it from taking customer orders or shipping products in a timely manner or prevent it from monitoring and maintaining optimum inventory levels. In addition, any such failure or disruption could undermine customer confidence in the reliability of ELKO Group's services and place it at a competitive disadvantage. Accordingly, such failures and disruptions in ELKO Group's key information systems may cause revenue to decrease and operating expenses to increase, which could have a material adverse effect on ELKO Group's business, financial condition and results of operations.

Credit risk of clients

ELKO Group's customers have a period of time, generally 7 to 90 days after the date of invoice, depending on the type of customer, in which to effect payment. As a result, ELKO is subject to the risk that its customers will not pay or will delay the payment for the products and services they purchased. This credit exposure risk may increase due to liquidity or solvency issues experienced by ELKO Group's customers, for example, as a result of an economic downturn or an adverse change in their business. ELKO Group assigns credit to customers according to internal credit policy, which is centrally developed yet tailored for each specific region, applying thorough internal analysis of ELKO Group's customers and seeking to diversify and limit its credit risk exposure. Credit policy is developed and implemented by credit control unit that employs professionals with extensive experience in the field. Credit control team caries relevant and high quality risk assessment on each credit limits well as follows strict procedures and regular follow-up on already assigned limits. If ELKO is unable to collect payment for amounts invoiced from its customers or from its credit insurance, it could have a material adverse effect on its business, financial condition and results of operations.

Furthermore, ELKO uses other tools to mitigate credit risk starting from blocking all shipments to any customer with delay and continuing with sophisticated alert system that signalizes about changes in customers payment and buying habits. ELKO Group actively seeks and use possibilities not only to cautiously evaluate and monitor customer credit risk, but also to mitigate it with additional securities. Cash deposits, bank guarantees, and trade credit insurance are used.

As of 30 September 2020, levels of insured accounts receivable of ELKO Group were 54%.

Due to market circumstances, ELKO does not use trade credit insurance in Ukraine. Nevertheless, Ukrainian customers undergo rigorous evaluation prior limit approval and close monitoring in further cooperation.

The rigorous client evaluations performed by ELKO Group's internal credit control team has led to relatively low allowances for impairment of trade receivables. In 2018 allowances for impairment of trade receivables was USD 3.8 million, while in 2019 the allowance was USD 1.9 million.

ELKO Group's trade and other receivables were USD 268.5 million at the end of 2019 and USD 286.6 million at the end of September 2020.

Risk of natural disasters and other business disruption

ELKO Group's operations are vulnerable to damage or interruption from tornadoes, earthquakes, fires, floods, power losses, telecommunication failures, terrorist attacks, acts of war, human errors and similar events. A significant natural disaster, such as a tornado, earthquake, fire or flood, could have a material adverse impact on the Group's ability to conduct business, and its insurance coverage may be insufficient to compensate for losses that may occur. Although the ELKO has implemented business continuity plans, acts of terrorism, war, civil unrest, violence or human error could cause disruptions to the Group's business or the economy as a whole. Any of these occurrences may have a material adverse effect on the ELKO Group's business, financial condition, results of operations and cash flows may be adversely affected.

Risk Factors (3)

Risks related to Bonds

Bonds repayment risk

The Bonds will rank pari passu with other unsecured liabilities of the Issuer. In case of Issuer's insolvency, Bondholders have the same right to receive their investment as other creditors of the relevant group in accordance with applicable regulatory enactments. There are no contracts or other transaction documents, which would subordinate the claims of Bondholders to other unsecured obligations of the Issuer. The Issuer is not prohibited from pledging assets in favor of other creditors.

The Issuer may not have the ability to repay or refinance these obligations. If the Maturity date occurs at a time when other arrangements prohibit the Issuer from repaying the Bonds, it could try to obtain waivers of such prohibitions from the lenders and holders under those arrangements, or the Issuer could attempt to refinance the borrowings that contain the restrictions. If the Issuer fails to obtain the waivers or refinance these borrowings, it would be unable to repay the Bonds.

Liquidity risk

Neither the Issuer nor any other person guarantees the minimum liquidity of the Bonds. Thus, the Bondholders should take into account that they may not be able to sell or face difficulties in selling their Bonds in secondary market at their fair market value or at all.

Delisting risk

After Bonds registration the Issuer plans to request admission to trading of the Bonds on the Multilateral Trading Facility (MTF) First North operated by Nasdaq Riga. There is a risk that Nasdaq Riga would not accept the Bonds to be admitted to trading on First North or order to delist the Bonds from the First North before the maturity after the admission to trading has taken place due to changes in Legal acts, including Nasdaq Riga regulations, or recommendations by the Financial and Capital Market Commission of Latvia.

Price risk

The development of market prices of the Bonds depends on various factors, such as changes of interest rates, central bank policies, overall economic development, or demand for the Bonds.

The Bonds bear a fixed interest rate. Thus, the Bondholders who seek to sell the Bonds before their final maturity are exposed to interest rate risk: if the market interest rate increases, the price of fixed rate Bonds typically declines.

Neither the Issuer, nor any other person undertakes to maintain a certain price level of the Bonds. The Bondholders are, thus, exposed to the risk of an unfavorable price development of their Bonds if they sell the Bonds prior to the final maturity. If a Bondholder decides to hold the Bonds until maturity, the Bonds will be redeemed at their Nominal Value.

Foreign exchange risk

The Bonds will be denominated and payable in EUR. If investors measure their investment returns by reference to a currency other than EUR, an investment in the Bonds will entail foreign exchange-related risks as the value of EUR relative to their reference currency may significantly fluctuate due to economic, political and other factors over which the ELKO has no control. Depreciation of the EUR against the reference currency could lower the effective yield of the relevant Bonds below their stated coupon rate and could result in a loss to investors when the return on such Bonds is translated into the reference currency.

Repurchase or redemption risk

The Group may seek to repurchase or redeem a portion of the Bonds from time to time, especially when prevailing interest rates are lower than the rate borne by such Bonds. If prevailing rates are lower at the time of redemption, the investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on such Bonds being redeemed. The Group's redemption right also may adversely impact investor's ability to sell such Bonds. The Group may from time to time repurchase the Bonds in the open market, privately negotiated transactions, tender offers or otherwise. Any such repurchases or redemptions and the timing and amount thereof would depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. Such transactions could impact the market for such Bonds and negatively affect the Bonds' liquidity.

Tax risk

Tax rates and tax payment procedure applicable at the moment of purchase of Bonds to the tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate for the increase in taxes to Bondholders, therefore Bondholders may receive smaller payments related to Bonds.

Resolutions of Bondholders risk

The majority resolution of the Bondholders is binding on all Bondholders. Thus, a Bondholder is subject to the risk of being outvoted by a majority resolution of the other Bondholders. As such, certain rights of such Bondholder against the Issuer may be amended or reduced, or even cancelled, without its consent.

ANNEXES

ANNEX 1 – TERMS OF THE NOTES ISSUE SIGNED ON JANUARY 29, 2021

ANNEX 2 – STAND-ALONE FINANCIAL REPORTS FOR YEAR 2020 (IN ENGLISH)*

ANNEX 3 – CONSOLIDATED FINANCIAL REPORTS FOR YEAR 2020 (IN ENGLISH)*

*Financial reports in Latvian are available on Nasdaq Riga website

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+371 6709 3230
info@elkogroup.com

ANNEX 1 – TERMS OF THE NOTES ISSUE SIGNED ON JANUARY 29, 2021

AS "ELKO GRUPA" (Latvia)
Reg. No: 40003129564
LEI: 549300TNFQRZUIMUKG02

Terms of the Notes Issue

ISIN:	LV0000870079
Type of security:	Unsecured Notes
Nominal:	EUR 1,000
Nominal value of the issue:	EUR 20,000,000
Annual coupon rate:	6.0%
Maturity date:	12 February 2026

These Terms of the Issue do not constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.
These Terms of the Issue are not a prospectus for the purposes of the Prospectus Regulation. These Terms of the Issue have been prepared on the basis that all offers of the debt securities that are issued by the Issuer according to the Terms of the Issue will be made pursuant to an exemption from the obligation to publish a prospectus under the Prospectus Regulation.
The issue of the Notes is a private placement and there is no intention of the Issuer to list the Notes on a regulated market.
The Issuer is a company incorporated and existing under the Legal Acts of the Republic of Latvia and said Legal Acts allow for the Issuer to record the issue with Nasdaq CSD.
Decision of the Issuer to organize the issue of the Notes has been passed in compliance with the Legal Acts of the Republic of Latvia. The issue of the Notes including the relationship between the Issuer and Investors or any third parties, and their respective rights and duties attached to the Notes such as voting rights, dividends and corporate actions is governed by the Legal Acts of the Republic of Latvia.
These Terms of the Issue do not constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.
These Terms of the Issue do not constitute a public offer for the purposes of the Prospectus Regulation and no competent authority of any Member State has examined or approved the contents thereof.
MiFID II product governance - solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that (i) the target market for the Notes is eligible counterparties, professional clients, and retail clients, each as defined in Directive 2014/65/EU; and (ii) all channels for distribution of the Notes to eligible counterparties, professional clients and respective retail clients are appropriate. Any person subsequently offering, selling or recommending the Notes should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels. Before deciding to purchase the Notes, investors should carefully review and consider risk factors described herein. Should one or more of the risks materialize, this may have a material adverse effect on the cash flows, results of operations, and financial condition of the Issuer. Moreover, if any of these risks materialize, the market value of the Notes and the likelihood that the Issuer will be in a position to fulfil its payment obligations under the Notes may decrease, in which case the Investors could lose all or part of their investments.

Arranger: SIGNET PRIVATE BANK

Financial advisor: CALLIDUS CAPITAL

29 January 2021

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Terms and abbreviations used

Agent	:	A person authorized to represent the Issuer and to perform certain tasks
AML	:	Anti-money laundering and counter terrorism and proliferation financing
Arranger	:	Signet Bank AS (registration number: 40003076407, legal address: Antonijas iela 3, Riga, Latvia, LV-1010)
Business Day	:	The day when the Nasdaq CSD system is open and operational
Change of Control	:	The occurrence of an event or series of events whereby, a Person or group of Persons acting in concert (directly or indirectly) gains: (a) a majority of the share capital or voting rights in the Issuer; or (b) a right to elect or remove a majority of the members of the board of the Issuer.
Coupon	:	Interest on Notes calculated in accordance with the Section 4.2.7. "Coupon payments"
Custodian	:	Credit institution or investment brokerage company that has obtained the FCMC license or is entitled to do business and to keep securities in accordance with its country of registration laws
EUR	:	Euro (single currency of the member states of the European Monetary System)
Financial advisor	:	SIA "Callidus Capital" (registration number: 40103733345, legal address: Elizabetes iela 13-1, Riga, Latvia, LV-1010)
FCMC	:	Financial and Capital Market Commission
First North	:	Multilateral Trading Facility (MTF) First North operated by Nasdaq Riga
First Settlement Date (Issue Date)	:	The date when interest on the Notes start to accrue and is 12 February 2021
IFRS	:	International Financial Reporting Standards
Interest calculation period	:	The period of time between the First Settlement Date and the date of the first payment or between two Coupon payment dates
Investor	:	A Note holder registered in the Nasdaq CSD or, where relevant, a private individual or legal entity that has, according to the terms and conditions set out in these Terms of the Issue, expressed interest or is planning to purchase one or more Notes for its own account
ISIN	:	LV0000870079, which was allocated by Nasdaq CSD
Issuer or ELKO Group or Group	:	Akciju sabiedrība "ELKO GRUPA" (registration number: 40003129564, legal entity identifier: 549300TNFQRZUIMUKG02, legal address: Toma iela 4, Riga, Latvia, LV-1003)
Legal acts	:	All legal acts including FCMC, Nasdaq Riga and Nasdaq CSD regulations, which are in force in Latvia at the time of the Notes issue, as well as prior to the maturity date of the Notes
Material Subsidiary	:	Any current and future direct or indirect Subsidiary of the Issuer, which constitutes more than 10% of the total consolidated annual revenue of the Issuer
Minimum Settlement Unit	:	The minimum amount which can be held/traded, which is equal to Nominal
Nasdaq CSD	:	Nasdaq CSD SE (registration number: 40003242879, legal address Vaļņu iela 1, Riga, LV-1050, Latvia)

Nasdaq Riga	:	AS "Nasdaq Riga" (registration number: 40003167049, legal address: Vaļņu iela 1, Riga, LV-1050, Latvia)
Nominal	:	Face value of a single Note, which is EUR 1,000 (one thousand euro and 00 cents)
Note	:	Debt security that is issued by the Issuer according to the Terms of the Issue
Person	:	Any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof, or any other entity, whether or not having a separate legal personality
Prospectus Regulation	:	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC
Related Parties	:	The shareholders, members of the management board and supervisory board of the Issuer, Subsidiaries and the Material Subsidiaries and legal entities of which they are majority shareholders or which are under their control
Sanctions	:	Restrictive measures, namely, restrictions or prohibitions imposed pursuant to international public law, including restrictive measures adopted by the United Nations Security Council (UN), the European Union (EU), Office for Foreign Assets Control (OFAC) and by the Republic of Latvia
Settlement Unit Multiple	:	Multiple that defines that the settlement quantity or Nominal must be a multiple of the Minimum Settlement Unit
Subsidiaries	:	Both direct and indirect subsidiaries of the Issuer defined in accordance with the IFRS
Terms of the Issue	:	This document, which entitles the Issuer to execute the Issue and the initial offering of the Notes

BEFORE DECIDING TO PURCHASE THE NOTES, INVESTORS SHOULD CAREFULLY REVIEW AND CONSIDER THE FOLLOWING RISK FACTORS. SHOULD ONE OR MORE OF THE RISKS DESCRIBED BELOW MATERIALIZE, THIS MAY HAVE A MATERIAL ADVERSE EFFECT ON THE CASH FLOWS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION OF THE ISSUER. MOREOVER, IF ANY OF THESE RISKS MATERIALIZE, THE MARKET VALUE OF THE NOTES AND THE LIKELIHOOD THAT THE ISSUER WILL BE IN A POSITION TO FULFIL ITS PAYMENT OBLIGATIONS UNDER THE NOTES MAY DECREASE, IN WHICH CASE THE INVESTORS COULD LOSE ALL OR PART OF THEIR INVESTMENTS.

2. Risk Factors

2.1. Important note

The risks indicated in this section may reduce Issuer’s ability to fulfil its obligations and cause its insolvency in the worst-case scenario. Investors have to take into account that Notes are not secured with collateral and third parties have not guaranteed Notes and Coupon payments related thereto.

This section may not feature all the potential risks, which may affect the Issuer.

2.2. Macroeconomics

ELKO Group is engaged in distribution of IT hardware, software and consumer electronics with direct presence in fourteen countries. ELKO Group distinguishes four primary regions – the Baltic’s (Estonia, Latvia, Lithuania), the CIS (Russia, Ukraine), the CEE (Romania, Poland, Slovakia, Czech Republic and Slovenia) and the Nordic region (Sweden, Norway, Denmark and Finland).

During the first 9 months of 2020, most of the ELKO Group’s revenue (59%) was generated in the CIS market. CIS countries have experienced problems in the previous years due to political and economic factors. For example, drop in oil and gas prices has negatively affected this region as many of the countries depend on strong commodity prices, devaluation of national currencies, war and economic sanctions. In spite of all the problems, Russia’s and Ukraine’s GDPs grew from 2016 – 2019. In 2020, due to Covid-19 outbreak, it is forecasted by the International Monetary Fund (IMF) that their economies will shrink by 4.1% and 7.2%, respectively. However, starting from 2021, it is expected that the region will return to growth of about 3% per annum.

CEE region contributed 20% of the total revenue, in the first 9 months of 2020 and is the largest region for the ELKO Group in terms of number of clients (42%). Most of the countries that constitute the CEE market for ELKO Group, are member states of the EU and posted solid GDP growth in the previous years. However, due to Covid-19 it is expected that these economies will shrink by 3.5% - 7.0% in 2020, followed by a rapid rebound in 2021. Other countries (mostly in Balkan region) which are serviced without direct presence experience similar economic patters.

The Nordic region generated 14% of the ELKO Group’s total revenue in the first 9 months of 2020. Growth has been broad-based over the past five years, with consumption, investment and exports all contributing significantly, meanwhile, strong domestic demand has pushed up imports. However, due to Covid-19, IMF forecasts that their GDPs will decrease by 3.0% - 5.0%, followed by a recovery of about 3.5% in 2021.

The Baltic region is the smallest one in terms of number of inhabitants and constituted only 7% of total revenue in the first 9 months of 2020. Although Baltic countries have seen stable growth in GDP and standard of living in the past years, in 2020 due to Covid-19, it is expected that their economies will shrink by 2.0% - 6.0%, followed by a swift recovery in 2021, according to IMF forecasts.

The global economy and most industries have seen strong headwinds since the first quarter of 2020, driven by the outbreak of the novel coronavirus COVID-19. The full impact on economy is still uncertain as new cases continue to increase globally, but it is clear that most nations will see their economies shrink as the global GDP for 2020 is forecasted to decrease by 5.2% according to the World Bank. While some recovery is expected in the following years and first vaccines have been developed, uncertainty remains high.

ELKO Group’s business, financial condition, results of operations and cash flows depends on the further growth of each of the countries where ELKO Group distributes products. ELKO Group’s revenue and profitability depend on market demand for IT products, which in turn often depends on overall economic conditions in the countries where it operates. Although, the overall impact of Covid-19 was positive on the IT industry and its development, thanks to the accelerated shift to remote working, that in turn significantly increased IT distribution segment’s revenue growth, an economic downturn or depression in any of these markets could result in delays or reductions in spending on, or the implementation of, IT by end-users, which could have a material adverse effect on the demand for the products and services offered by the Group, and, therefore, its business, financial condition and results of operations.

2.3. Changes in customs regulations

Substantial share of the IT and consumer electronics products are manufactured in the People’s Republic of China. ELKO Group receives the goods in its warehouses in the Netherlands and Finland or directly to its warehouses in countries of operation. In order to distribute the products in the EU and non-EU countries ELKO Group has to arrange transportation to and customs clearance as well as ensure timely payment of VAT and import duties if any.

The change in legal acts and interpretation of regulations by various state agencies in the respective countries may cause delay, penalties and in the worst-case scenario arrest of cargo. ELKO Group cooperates with logistics partners that have extensive knowledge of customs regulations thus diminishing any risk associated with imports.

2.4. Competition risk

The markets in which ELKO Group operates are characterized by rapid technological change, frequent new product introductions, evolving industry standards and changing needs of customers. ELKO Group’s competitors include national, regional and international IT distributors. Competition in the market for the distribution of IT products is generally based on vendor and product selection and availability, price, ability to tailor solutions to specific customer needs, service, support and training, willingness to provide credit, ability to provide logistics services on behalf of the vendor and speed of delivery. Product lifecycles are generally short and the pace of technological development is rapid.

To remain competitive and to protect profit margins, ELKO Group must offer new products that keep pace with such developments and must respond to customer requirements on a timely basis. New technologies, changing commercial circumstances (for example, consolidation within a relevant sector), existing competitors (including those with a longer operating history, greater resources and/or broader range of products) and new entrants to the markets in which ELKO Group currently operates or markets in which ELKO Group might target for expansion may adversely affect the Group’s business, financial condition, results of operations or prospects. Competition may also come from ELKO Group’s vendors, who may directly sell to its end-customers.

In particular, the IT wholesale distribution industry is characterized by stagnating or downward pressure on gross margins primarily as a result of increasing competition within the industry and changes in product mix. There can be no assurance that ELKO Group will manage to mitigate this risk effectively and will not be forced to reduce prices in the future in response to the actions of its competitors and thereby experience decreases in its gross or net margins.

2.5. Relations with key vendors

ELKO Group depends on a number of key vendors to purchase particular products in the required quantities and to fulfil customer orders on a timely basis. In the first 9 months of 2020, products purchased from the Group’s five largest vendors - Apple, Huawei, Intel, Samsung and ACER - accounted for approximately 20%, 12%, 7%, 5% and 4%, respectively, of ELKO Group’s total revenue. Top 10 largest vendors accounted for 65% of ELKO Group’s total revenue. Legal relationship with key vendors is typically formulated across a number of agreements, dependent on vendor practice and / or local market specifics, for example, there may be separate legal agreements for specific geographies and / or product groups. Decisions about enabling or disabling a distributor and respective commercial conditions can be made on different levels in vendor organization, locally, regionally and globally. Such decision making structure in combination with fragmented legal set-up significantly mitigates the concentration risk for specific vendors, as loss of distribution agreement and / or worsening commercial conditions in specific geography and / or product group may not affect entire commercial relationship with said vendor.

Should ELKO Group experience any prolonged shortages or delays in deliveries by ELKO Group's vendors, the price it pays for those products may increase or the products may not be available at all. Further, a vendor may terminate the Group's right to sell some or all of its products or change the terms and conditions of the vendor relationship or reduce or discontinue the incentives or programs offered. Consistent with standard industry practice, contracts with ELKO Group's vendors are for one-year durations, which are then regularly renewed for subsequent one-year periods. However, there is no guarantee that the contract will be renewed or that the contract will be renewed on existing business conditions (including, but not limited to: stock protection, stock rotation, rebates, pricing strategy, etc.). Accordingly, if ELKO Group is not able to purchase an adequate supply of products to fulfil the orders of its customers on a timely basis or if there were significant changes in the terms and conditions pursuant to which ELKO Group purchases its products, ELKO Group's business, financial condition, results of operations and cash flows may be adversely affected. ELKO Group has long lasting relationships with all of its main vendors and has an excellent track record of managing these relationships and / or finding adequate replacements thanks to a strong and experienced team of executives. However, the loss of any of these vendors or a combination of other key vendors, and ELKO Group's inability to find adequate replacement products or services on a timely basis, or at all, on commercially acceptable terms, could have a material adverse effect on its business, financial condition and results of operations.

2.6. Inventory management

Because ELKO Group maintains certain inventories in order to ensure that the lead times to customers remain competitive, it is subject to the risk of inventory obsolescence. Inventory management is also dependent on seasonality, as the Group has to manage its inventory to meet expected demand. For example, at the end of the third quarter, the Group accumulates larger stock volumes to prepare for the increased demand at the end of the year.

ELKO Group's inventory levels were USD 169 million at the end of 2019 and USD 213 million at the end of September 2020.

It is the policy of many vendors of IT products to offer distributors limited protection from the loss in value of inventory due to technological change or such vendors' price reductions. For example, ELKO Group can receive a credit from certain vendors for products, based upon the terms and conditions contained in agreements with those vendors, in the event of a vendor price reduction. In addition, ELKO Group has a right to return to a limited number of vendors a certain percentage of purchases. These policies are often not embodied in written agreements and are subject to the discretion of the vendors. As a result, they do not protect ELKO Group in all cases from declines in inventory value. ELKO Group offers no assurance that the price protection offered by some of its vendors will continue or that it will successfully manage existing and future inventories. If major vendors decrease the availability of price protection to ELKO Group, such a change in policy could lower ELKO Group's gross margin on products it sells or cause it to record inventory write-downs. ELKO Group is also exposed to inventory risk to the extent that vendor protections are not available on all products or quantities and are subject to time restrictions. In addition, during an economic downturn, it is possible that prices will decline due to an oversupply of product, and therefore there may be greater risk of declines in inventory value. ELKO Group actively monitors the situation and quality of its warehouses, as well as manages inventory risks through procurement processes. However, if ELKO Group fails to successfully manage inventory obsolescence risks, its business, financial condition and results of operations may suffer.

2.7. Financial leverage

ELKO Group's business model depends on the ability to distribute large quantities of products. In order to achieve this ELKO Group utilizes credit lines of several banks in Latvia, Russia, Romania, Ukraine and elsewhere. ELKO Group's borrowings, excluding lease liabilities and loans from shareholders, were USD 120 million at the end of 2019 and USD 145 million at the end of September 2020.

Credit lines are usually secured with inventory and accounts receivables with typical maturity of one year. ELKO Group’s relations with commercial banks are important for future development. Each year ELKO Group negotiates the terms of the respective credit lines. There is no assurance that the Issuer is able to continue borrowing from the banks on favorable conditions.

2.8. Foreign exchange risk

ELKO Group mostly trades in local currencies, while its liabilities are denominated in multiple currencies, USD being the main one. The company mitigates foreign currency risks with systematized hedging strategies. Main risks are associated with Russian Rouble (RUB), Euro (EUR), Ukrainian Hryvnia (UAH) and Romanian leu (RON). Currency risk for RUB, EUR, PLN and UAH is assessed daily while the risk for RON is assessed three times per week, and weekly for SEK and subsequent actions are taken to mitigate indicated risk.

To cover currency risks ELKO Group accounts all positions, then uses natural hedging instruments (loans, factoring, accounts payable matching with inventory and accounts receivable) and lastly closes the remaining open position with forwards. ELKO Group’s main counterparty for forwards is Deutsche Bank.

At the end of 2019 borrowings, excluding lease liabilities and loans from shareholders, were denominated in various currencies: 40% in RUB, 23% in USD, 15% in EUR, 9% in SEK, 7% in UAH, 5% in RON. As of 30 September 2020, borrowings, excluding lease liabilities and loans from shareholders, were denominated as follows: 51% in RUB, 27% in USD, 11% in SEK, 6% in EUR, 3% un UAH, 3% in RON.

2.9. Dependence on warehouse and logistics partners

ELKO Group relies almost entirely on arrangements with third-party warehouse and shipping companies for the storage and delivery of its products. Consistent with industry practice, ELKO Group’s contractual arrangements with such third-party providers are mostly signed for a period of up to 5 years, after which the contracts are renewed. ELKO Group is the anchor lessee in the warehouses it has contractual arrangements with, significantly reducing the risk of unexpected negative changes in rent and increasing the probability of successful contract renewals. However, there is no guarantee that the contract will be renewed. In case of contract termination, ELKO Group would have to relocate its products to a new warehouse. Although, this process could cause disruptions to ELKO Group’s business, the stored products have almost no specific storage requirements, facilitating the process. The termination of these arrangements with one or more of such third-party warehouse and shipping companies, or the failure or inability of one or more of these third-party warehouse and shipping companies to deliver products from vendors to the Group, store the products or deliver products from the Group to its customers could cause a disruption in its business operations and harm its reputation and results of operations.

2.10. Dependence on managing employees

In the future, the Issuer’s activities will be affected by its ability to attract, preserve, and motivate highly qualified and experienced personnel. There is competition for personnel with the relevant skills and experience in Latvia (main office) and in other countries, and it is comparatively high; however, the Issuer has successful experience in the field of personnel management, offering education, professional growth, and development possibilities, as well as different motivation programs to the employees.

At the end of 2020, ELKO employed almost 1,500 full time employees. Most of employees are located in Russia (547), Slovakia (317), Latvia (246) and Ukraine (157).

2.11. Operational risks

Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful inner processes, personnel management, systems, or external circumstances. The Issuer’s employed 1,482 employees at the end of 2020; thorough personnel selection is carried out, accurate descriptions of job duties are compiled, division of duties is coordinated, constant investments are made within the IT system, which allows the Issuer to reduce operational risks.

In response to the Covid-19 pandemic, ELKO implemented remote work policies, where it was possible and most office employees switched to working from home, as all systems are remotely available. Contactless shipping and receiving of goods was introduced at all warehouses.

2.12. IT Systems

ELKO depends on certain key information systems to manage its operations, in particular Oracle JD Edwards Enterprise One for ERP (enterprise resource planning) and warehouse management and locally adapted and, in some cases, internally developed accounting platforms for sales. Any failure or significant disruption in ELKO Group’s information systems could prevent it from taking customer orders or shipping products in a timely manner or prevent it from monitoring and maintaining optimum inventory levels. In addition, any such failure or disruption could undermine customer confidence in the reliability of ELKO Group’s services and place it at a competitive disadvantage. Accordingly, such failures and disruptions in ELKO Group’s key information systems may cause revenue to decrease and operating expenses to increase, which could have a material adverse effect on ELKO Group’s business, financial condition and results of operations.

2.13. Credit risk of clients

ELKO Group’s customers have a period of time, generally 7 to 90 days after the date of invoice, depending on the type of customer, in which to effect payment. As a result, ELKO is subject to the risk that its customers will not pay or will delay the payment for the products and services they purchased. This credit exposure risk may increase due to liquidity or solvency issues experienced by ELKO Group’s customers, for example, as a result of an economic downturn or an adverse change in their business. ELKO Group assigns credit to customers according to internal credit policy, which is centrally developed yet tailored for each specific region, applying thorough internal analysis of ELKO Group’s customers and seeking to diversify and limit its credit risk exposure. Credit policy is developed and implemented by credit control unit that employs professionals with extensive experience in the field. Credit control team caries relevant and high quality risk assessment on each credit limits well as follows strict procedures and regular follow-up on already assigned limits. If ELKO is unable to collect payment for amounts invoiced from its customers or from its credit insurance, it could have a material adverse effect on its business, financial condition and results of operations.

Furthermore, ELKO uses other tools to mitigate credit risk starting from blocking all shipments to any customer with delay and continuing with sophisticated alert system that signalizes about changes in customers payment and buying habits. ELKO Group actively seeks and use possibilities not only to cautiously evaluate and monitor customer credit risk, but also to mitigate it with additional securities. Cash deposits, bank guarantees, and trade credit insurance are used.

As of 30 September 2020, levels of insured accounts receivable of ELKO Group were 54%.

Due to market circumstances, ELKO does not use trade credit insurance in Ukraine. Nevertheless, Ukrainian customers undergo rigorous evaluation prior limit approval and close monitoring in further cooperation.

The rigorous client evaluations performed by ELKO Group’s internal credit control team has led to relatively low allowances for impairment of trade receivables. In 2018 allowances for impairment of trade receivables was USD 3.8 million, while in 2019 the allowance was USD 1.9 million.

ELKO Group’s trade and other receivables were USD 268.5 million at the end of 2019 and USD 286.6 million at the end of September 2020.

2.14. Risk of natural disasters and other business disruption

ELKO Group’s operations are vulnerable to damage or interruption from tornadoes, earthquakes, fires, floods, power losses, telecommunication failures, terrorist attacks, acts of war, human errors and similar events. A significant natural disaster, such as a tornado, earthquake, fire or flood, could have a material adverse impact on the Group’s ability to conduct business, and its insurance coverage may be insufficient to compensate for losses that may occur. Although the ELKO Group has implemented business continuity plans, acts of terrorism, war, civil unrest, violence or human error could cause disruptions to the Group’s business or the economy as a whole. Any of these occurrences may have a material adverse effect on the ELKO Group’s business, financial condition, results of operations and cash flows may be adversely affected.

2.15. Taxation risk

ELKO operates in various countries with diverse sets of tax regimes. Changes to local tax regimes or challenges to the current tax structures of the ELKO Group’s business could have material adverse effect on its business, financial condition, or results of operations. Additionally, certain tax positions taken by the ELKO Group require the judgement of management and, thus, could turn to be inefficient or challenged by tax authorities due to possible erroneous interpretation of tax legislation.

2.16. Risks related to Notes

2.16.1. Notes repayment risk

The Notes rank *pari passu* with other unsecured obligations of the Issuer. In case of the insolvency of the Issuer, the Investors will be entitled to recover their investment on the same terms as other creditors in the respective claims’ group according to the relevant Legal acts. There are no contracts or other transaction documents that would subordinate the claims of the Investors to other unsecured liabilities of the Issuer.

The Issuer may not have the ability to repay or refinance these obligations. If the maturity date occurs at a time when other arrangements prohibit the Issuer from repaying the Notes, it could try to obtain waivers of such prohibitions from the lenders and holders under those arrangements, or the Issuer could attempt to refinance the borrowings that contain the restrictions. If the Issuer fails to obtain the waivers or refinance these borrowings, it would be unable to repay the Notes.

2.16.2. Liquidity risk

Neither the Issuer nor any other person guarantees the minimum liquidity of the Notes. Thus, the Investors should take into account that they may not be able to sell or face difficulties in selling their Notes in secondary market at their fair market value or at all.

2.16.3. Delisting risk

After Notes registration the Issuer plans to request admission to trading of the Notes on the Multilateral Trading Facility (MTF) First North operated by Nasdaq Riga. There is a risk that Nasdaq Riga would not accept the Notes to be admitted to trading on First North or order to delist the Notes from the First North before the maturity after the admission to trading has taken place due to changes in Legal acts, including Nasdaq Riga regulations, or recommendations by the FCMC.

2.16.4. Price risk

The development of market prices of the Notes depends on various factors, such as changes of interest rates, central bank policies, overall economic development, or demand for the Notes.

The Notes bear a fixed interest rate. Thus, the Investors who seek to sell the Notes before their final maturity are exposed to interest rate risk: if the market interest rate increases, the price of fixed rate Notes typically declines.

Neither the Issuer, nor any other person undertakes to maintain a certain price level of the Notes. The Investors are, thus, exposed to the risk of an unfavorable price development of their Notes if they sell the Notes prior to the final maturity. If an Investor decides to hold the Notes until maturity, the Notes will be redeemed at their Nominal Value.

2.16.5. Foreign exchange risk

The Notes will be denominated and payable in EUR. If Investors measure their investment returns by reference to a currency other than EUR, an investment in the Notes will entail foreign exchange-related risks as the value of EUR relative to their reference currency may significantly fluctuate due to economic, political and other factors over which the ELKO has no control. Depreciation of the EUR against the reference currency could lower the effective yield of the relevant Notes below their stated coupon rate and could result in a loss to investors when the return on such Notes is translated into the reference currency.

2.16.6. Repurchase or redemption risk

The Group may seek to repurchase or redeem a portion of the Notes from time to time, especially when prevailing interest rates are lower than the rate borne by such Notes. If prevailing rates are lower at the time of redemption, the investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on such Notes being redeemed. The Group’s redemption right also may adversely impact investor’s ability to sell such Notes. The Group may from time to time repurchase the Notes in the open market, privately negotiated transactions, tender offers or otherwise. Any such repurchases or redemptions and the timing and amount thereof would depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. Such transactions could impact the market for such Notes and negatively affect the Notes’ liquidity.

2.16.7. Tax risk

Tax rates and tax payment procedure applicable at the moment of purchase of Notes to the tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate for the increase in taxes to Investors, therefore Investors may receive smaller payments related to Notes.

2.16.8. Resolutions of Investors risk

The majority resolution of the Investors is binding on all Investors. Thus, an Investor is subject to the risk of being outvoted by a majority resolution of the other Investors. As such, certain rights of such Investor against the Issuer may be amended or reduced, or even cancelled, without its consent.

3. Party responsible for the Terms of the Issue

3.1. Party responsible for the Terms of the Issue

The Issuer: Akciju sabiedrība "ELKO GRUPA"

Registration number: 40003129564

Legal entity identifier: 549300TNFQRZUIMUKG02

Legal address: 4 Toma street, Riga, Latvia, LV-1003.

3.2. Representations and Warranties of the Issuer

The Issuer shall, in accordance with these Terms of the Issue, issue Notes and perform the obligations arising from the Notes to the Investors.

The Issuer shall be liable to the Investors for due and complete fulfilment of its obligations deriving from the Notes.

The Issuer gives the following warranties to the Investors:

(a) All the Issuer’s obligations assumed under this issue of the Notes are valid and legally binding to the Issuer and performance of these obligations is not contrary to the Issuer’s Articles of Association, laws or any agreement concluded by the Issuer;

(b) The Issuer has all the rights and sufficient authorizations to issue the Notes and fulfil obligations arising from issuing the Notes;

(c) The Issuer has performed all the formalities required for issuing the Notes and fulfilling the obligations arising here from;

(d) All information that is provided by the Issuer to the Investors is true, accurate, complete and correct as at the date of presenting the respective information and is not misleading in any respect.

3.3. Assurance of the information provided in the Terms of the Issue

The Issuer and its management board are responsible for the information contained in Terms of the Issue.

Hereby we, members of the board of AS “ELKO Grupa”, Egons Mednis, Svens Dinsdorfs, Vadims Rabša, Mārtiņš Ozoliņš, certify that, by paying sufficient attention to this purpose, the information included in the Terms of the Issue is true, in accordance with the facts, and no information which may affect its meaning is concealed therein.

____________________	____________________	____________________	____________________
Egons Mednis Chairman of the board	Svens Dinsdorfs Member of the board	Vadims Rabša Member of the board	Mārtiņš Ozoliņš Member of the board

4. Information on Notes

4.1. The use of the proceeds

The total issue size is EUR 20,000,000 (twenty million euro).

Funds that are raised as a result of the Notes issue will be used to finance working capital needs.

4.2. Information on the offered Notes

4.2.1. General Information

The Notes are bearer and any person or entity that holds the Notes in its securities account has the right to receive Coupon and the Nominal payments. It is planned to issue Notes with nominal value of EUR 1,000 (one thousand euro) for one Note and total nominal value of EUR 20,000,000 (twenty million euro).

Notes issue ISIN is LV0000870079, which was allocated by Nasdaq CSD.

4.2.2. Legal acts that regulate the Notes issue

The Notes issue is a private placement arranged in compliance with the Financial Instrument Market Law and other Legal Acts of the Republic of Latvia that are in force including the FCMC, the Nasdaq CSD and the Nasdaq Riga regulations. Minimum subscription size for Notes is EUR 100,000 (one hundred thousand euro) with minimum step of EUR 1,000 (one thousand euro).

All disputes between Investors and the Issuer shall be settled in courts of the Republic of Latvia in accordance to the Legal acts in force. Terms of the Issue are drafted and signed in English and any translations of the Terms of the Issue into another language are unofficial and made exceptionally for the Investors' convenience. In case of any disputes' settlement, interpretation of the norms of the Terms of the Issue in English holds the priority against an interpretation in any other language.

4.2.3. Form and accounting of the Notes

The Notes are issued in dematerialized form and will be recorded in the Latvian SSS (securities settlement system governed by Latvian law) operated by Nasdaq CSD, which will provide the maintaining function for the Notes. Investors may hold Notes through Nasdaq CSD participants participating in the Latvian SSS.

4.2.4. Currency of the Notes

Currency of the Notes is EUR (euro).

4.2.5. Subordination of the Notes

The Notes rank *pari passu* with other unsecured obligations of the Issuer. In case of the insolvency of the Issuer, the Investors will be entitled to recover their investment on the same terms as other creditors in the respective claims' group according to the relevant Legal acts. There are no contracts or other transaction documents that would subordinate the claims of the Investors to other unsecured liabilities of the Issuer.

Issuer will subordinate claims of current and future Related Parties' loans to the Notes within 6 months after the Issue Date.

4.2.6. Rights and restrictions connected with the Notes issue

Any Investor has the right to receive Coupon and Nominal payments in accordance with the Section 4.2.7. "Coupon payments" and 4.2.8. "Procedure of Notes repayment", as well as exercise other rights fixed in the Terms of the Issue and legislation of the Republic of Latvia.

The Issuer has the rights to purchase Notes on the secondary market directly from Investors. Notes that are purchased by the Issuer are held in Issuer's financial instruments' custody account and the Issuer has the rights to sell purchased Notes to Investors. The Issuer cannot cancel the purchased Notes held in the Issuer's financial instruments' custody account, therefore decreasing the size of Notes issue.

Notes owned by the Issuer and / or its Related Parties are not eligible to participate in the voting in accordance with Section 5.5. "Procedure for applying of the waiver".

4.2.7. Coupon payments

The Coupon rate for the Notes is 6% (six per cent) per annum and is fixed until the maturity of the Notes.

Coupon payments are made two times per year – on every 12 February and 12 August. The first Coupon payment will be made on 12 August 2021 and the last Coupon payment will be made on 12 February 2026.

The Coupon record date is the 5th (fifth) Business Day prior to the Coupon payment day. At the end of the Coupon record date Investors list, who will be eligible for the Coupon payments, will be fixed. Coupon payment shall be made to the Investors, as per Investors list, on each Coupon payment date for the preceding Coupon period.

The Issuer pays the Coupon through the intermediary of Nasdaq CSD and in accordance with applicable Nasdaq CSD regulations, which regulate the procedure for paying income from debt securities. Nasdaq CSD regulations applicable on the day of preparation of the Terms of the Issue are Nasdaq CSD Rulebook and Corporate Action Service description.

If the Coupon payment date is a holiday or a festive day, the Issuer will make the relevant Coupon payment on the first Business Day after the holiday or festive day.

Coupon payments starting from 12 August 2021 are determined according to the following formula:

CPN = F * C /2 or CPN% = C/2, where

CPN – the amount of Coupon payment in EUR per Note;

F – Nominal value of one Note;

C – annual Coupon rate (%);

CPN% - the amount of Coupon payment % per Note.

The authority performing the calculation is not required to calculate the Coupon payment, since the annual rate of the Coupon for the relevant period is fixed in advance.

4.2.8. Procedure of the Notes repayment

The Nominal of one Note is EUR 1,000 (one thousand euro) and the Issuer will repay Nominal amount as a lump sum on the maturity date of the Notes, which is 12 February 2026.

The Issuer will repay the Nominal amount in accordance with Nasdaq CSD intermediary and applicable Nasdaq CSD regulations. Nasdaq CSD regulations applicable on the day of preparation of the Terms of the Issue are Nasdaq CSD Rulebook and Corporate Action Service Description. The Nominal amount will be paid on the maturity date. Investors eligible to receive the Nominal will be fixed at the end of the Nominal record date, which is the previous Business Day before the maturity date.

If the maturity date is a holiday or a festive day, the Issuer will make the relevant Coupon payment and Nominal amount payment on the first Business Day after the holiday or festive day.

4.2.9. Early redemption (call option)

The Issuer can carry out full early redemption (call option), on

- On 12 February 2022 by paying 104% (one hundred and four per cent) of the Nominal amount;
- On 12 February 2023 by paying 103% (one hundred and three per cent) of the Nominal amount;
- On 12 February 2024 by paying 102% (one hundred and two per cent) of the Nominal amount;
- On 12 February 2025 by paying 101% (one hundred and one per cent) of the Nominal amount;

The Issuer can carry out call option only in full amount of total outstanding Notes.

If the Issuer takes decision on the early redemption of Notes, the Issuer shall notify Investors at least 40 (forty) Business Days prior to the redemption date of Notes, with intermediation of Nasdaq Riga information system.

If the Issuer takes decision on the early redemption of Notes, the Issuer will pay redemption payment in accordance with Nasdaq CSD intermediary and applicable Nasdaq CSD regulations. Nasdaq CSD regulations applicable on the day of preparation of the Terms of the Issue are Nasdaq CSD Rulebook and Action Service Description. Investors eligible to receive the redemption payment will be fixed at the end of the record date, which will be the previous Business Day before the redemption payment date.

4.2.10. Early redemption (put option)

Investors have no rights to demand early redemption of Notes (put option).

4.2.11. Early redemption (event of default and change of control)

Investors have rights to demand early redemption of Notes in case of occurrence of the events of default in accordance with the Section 5.2. “Event of default”.

In case of breach of the covenant 5.4.4. “Not to Change of Control of the Issuer” Investors have the rights to demand early redemption of Notes at the price of 101% (one hundred and one per cent) of the Nominal amount, along with the accrued Coupon within 5 (five) Business Days after the Issuer has received the notification.

4.2.12. Accrued interest calculation

The first Coupon starts to accrue on 12 February 2021, which is the First Settlement Date of the Notes issue. The accrued Coupon is calculated presuming that there are 360 days in one year (day count convention - “European 30/360”). Accrued interest between Coupon payment dates shall be calculated as follows:

$AI = F * C / 360 * D$, where

AI – accrued interest of one Note;

F – Nominal value of one Note;

C – annual Coupon rate (%);

D – the amount of days from the beginning of the Coupon accrual period according to European 30/360 day count method.

4.2.13. Representation of the Investors

Within the framework of the issue, it is not planned, yet not prohibited to create an organization of authorized persons which would represent Investors. In case of the insolvency of the Issuer, every Investor has the right to represent his own interests in creditors’ meetings. The Investors will have equal rights for satisfaction of their claims with other creditors in the same claims’ group.

4.2.14. Decisions of the Issuer on the Notes issue

On 21 January 2021, the Issuer’s shareholders passed the decision (No. LEG_2021_4_001) to issue debt securities in the amount of up to EUR 20,000,000 (twenty million euro). On 27 January 2021 the Issuer’s board passed the decision (No. LEG_2021_6_005) to issue the Notes and to authorize the members of the board to sign all the documents related to the execution of the shareholders’ decision to issue debt securities.

4.2.15. The First Settlement Date of the Notes issue

The First Settlement Date (Issue Date) of the Notes issue is 12 February 2021, on which the Coupon starts to accrue.

4.2.16. Restrictions on free circulation of the Notes

The Notes are freely transferable securities and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under the laws of the Republic of Latvia.

5. Special Conditions

5.1. Disclosure of information

Up until the maturity of Notes, the Issuer shall publish all the information required by covenants, rules of Nasdaq Riga and regulatory enactments.

5.2. Event of default

The Investor can submit a written notification to the Issuer that the immediate repayment deadline has set in for the Notes owned by the relevant Investor, at any time after the event of default has occurred (and as long as the event of default exists). The Issuer has to pay the Nominal value of Notes along with the accrued Coupon and contractual penalty, in accordance with Section 5.3. “Contractual penalty”, within 5 (five) Business Days after the receipt of the notification.

Each of the events or circumstances set out in below shall constitute an event of default:

5.2.1. Non-payment

The Issuer fails to pay out any amount payable by it under the Terms of the Issue when such amount is due for payment, unless its failure to pay is caused by administrative or technical error in payment systems or the Nasdaq CSD and payment is made within five Business Days following the original due date.

5.2.2. Breach of covenants

The Issuer has violated the conditions of the Section 5.4. “Covenants”.

5.2.3. Cross default

If for Issuer or any Subsidiary:

I. any Financial Indebtedness is not paid when due nor within any applicable grace period; or
II. any Financial Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described); or
III. any commitment for any Financial Indebtedness is cancelled or suspended by a creditor as a result of an event of default (however described); or
IV. any creditor becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of an event of default (however described),

provided however that the aggregate amount of such Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (I) to (IV) above exceeds a total of USD 10,000,000 (ten million US dollars) (or the equivalent thereof in any other currency).

Financial Indebtedness shall mean any indebtedness for in respect of:

I. moneys borrowed and debt balances at banks or other financial institutions;
II. any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
III. any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument, including the Notes;
IV. the amount of any liability in respect of any finance lease;
V. without double counting, the amount of any liability in respect of any guarantee for any of the items referred to in paragraphs (I) to (IV) above.

5.2.4. Insolvency or insolvency proceedings

Issuer:

I. is insolvent, if:
    a. is unable or admits inability to pay its debts as they fall due
    b. suspends making payments on any of its debts generally
    c. is otherwise considered insolvent or bankrupt within the meaning of the relevant bankruptcy legislation
II. is object of any corporate action or any legal proceedings is taken in relation to:
    a. the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration, reconstruction or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) other than a solvent liquidation or reorganisation; or
    b. a composition, compromise, assignment or arrangement with any creditor which may materially impair its ability to perform its obligations under the Notes or

c. the appointment of a liquidator (other than in respect of a solvent liquidation), receiver, administrative receiver, administrator, compulsory manager or other similar officer of any of its assets; or
d. for (a) - (c) above, any analogous procedure or step is taken in any jurisdiction in respect of any such company, however this shall not apply to any petition which is frivolous or vexatious and is discharged, stayed or dismissed within 20 Business Days of commencement.

5.3. Contractual penalty

In the case of non-compliance or inadequate compliance with a payment obligation arising from the Notes, the Investor in question shall be entitled to require and the Issuer shall be obliged to pay contractual penalty upon the request of any Investor to all the Investors from the date (excluding), when the deadline has set in, to the actual payment date (including) in the amount of 0.05% (zero point zero five per cent) per day from the relevant outstanding amount.

5.4. Covenants

From the Issue Date of Notes to the date of repayment thereof, the Issuer and its Subsidiaries shall undertake the following:

5.4.1. To maintain consolidated ratio of Equity (Total Equity increased by outstanding subordinated loans) to Assets (Total Assets decreased by IFRS 16 influence) of at least 16%, at the end of each reporting period;

5.4.2. To maintain consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) of at least 1.5x, calculated on the trailing 12 months (TTM) basis at the end of each reporting period;

5.4.3. The Issuer and its Subsidiaries shall continue business operations in the field of IT products and consumer electronics distribution;

5.4.4. Not to Change of Control of the Issuer;

5.4.5. Not to commence Issuer’s reorganization, liquidation or not to reduce the share capital;

5.4.6. Not to sell, present, change, rent, invest, or otherwise transfer into utilisation the right to use the trademarks of the Issuer and/or its Subsidiaries;

5.4.7. In case of investment larger than EUR 500,000 (five hundred thousand euro) in any company outside the Group, the Issuer or its Subsidiaries should acquire control over such other company within six months from the date of the investment;

5.4.8. Any transactions with Related Persons shall be at market prices;

5.4.9. To not sell, dissolve, liquidate any Material Subsidiary;

5.4.10. To subordinate claims of current and future Related Parties’ loans to the Notes within 6 months after the Issue Date;

5.4.11. To include Notes on the First North within 6 months after the Issue Date;

5.4.12. To prepare and publish consolidated unaudited quarterly reports within 2 months after the end of reporting period;

5.4.13. To publish audited consolidated annual report as per IFRS within 4 months after the end of reporting period;

5.4.14. Proof of compliance with the 5.4.1. and 5.4.2. covenants to be included in every quarterly report.

For the needs of this section, the term “Related Persons” shall mean any natural or legal person, which is (a) a shareholder or (b) a member of the board or council, or (c) an employee, or (d) a spouse of any persons referred to in (a) – (c) in relation to the Issuer.

5.5. Procedure for applying for the waiver

The Issuer has the right to ask for the consent (waiver) of Investors to amend the conditions included in the Terms of the Issue (apply for the waiver).

The amendment of the Terms of the Issue may include the amendment of any conditions, which is not restricted by such characteristics of Notes as currency, Coupon rate, Coupon calculation method, Coupon and Nominal payments, inclusion of Note for trade in other regulated or alternative markets, repayment deadline of Notes, and other conditions, unless they contradict regulatory enactments in force in the Republic of Latvia.

The Issuer can apply for the waiver itself or through the intermediary of an authorized person (“Agent”). To apply for the waiver, the Issuer or Issuer’s Agent shall notify Investors directly or if Notes are included in First North, via Nasdaq Riga information system, specifying at the least the following information:

- a description of the changes applied for;
- a justification of the necessity of the changes applied for;
- the date when the list of Investors eligible to grant the waiver (vote) will be fixed;
- the term within which an Investor can support or reject the offered waiver;
- instructions concerning notification about the support or rejection of the waiver and the procedure for filling in the voting questionnaire;
- notification that an Investor willing to grant the waiver offered by the Issuer shall notify the Issuer and Issuer’s Agent within the term specified in the application, which is certified by a postal seal, signature on receipt or notification (letter or email) from Investor’s Custodian. If the Investor does not notify the Issuer or Issuer’s Agent about the approval to grant waiver within the term specified in the application, an Investor shall be deemed as not having granted the waiver;
- contact details of the Issuer and/ or the Issuer’s Agent to be used for notifications (telephone number for inquiries, email or address for sending filled in and signed questionnaires, list of representative offices and/ or branches of the Issuer and/ or Issuer’s Agent where Investors can submit the questionnaires in person);
- other information including a fee to Investors for approving the waiver needed by Investors for deciding upon granting the consent or refusal to grant the waiver to the Issuer.

The list of Investors shall be inquired from the Nasdaq CSD as of the date falling to the 5th (fifth) Business Day after the waiver was sent to Investors directly or if Notes are included in First North, via Nasdaq Riga information system.

The term allowed to Investors for deciding upon refusal to grant the waiver to the Issuer may not be shorter than 14 (fourteen) calendar days after the information about the waiver was sent to Investors directly or if Notes are included in First North, via Nasdaq Riga information system.

Investors shall submit signed questionnaires with their decision to the Issuer or Issuer’s Agent by a deadline set in the application of the waiver. The waiver is deemed to be granted, if Investors owning at least 2/3 (two thirds) of the outstanding Notes issue (excluding Notes owned by the Issuer and / or its Related Parties from the total outstanding amount of Notes issue) have voted for granting the waiver. The Notes owned by the Issuer and / or its Related Parties are not eligible to participate in the voting.

The Issuer or Issuer’s Agent shall count the received votes and notify Investors of the results of the voting within one Business Day after the deadline for submitting the questionnaires by sending the relevant announcement to Investors directly or if Notes are included in First North, by publishing it via Nasdaq Riga information system.

If the accepted changes refer to specifications of the Notes and/ or Coupon calculation method, as well as procedure of Coupon payments and/ or repayment of the Nominal, the Issuer shall inform Nasdaq CSD on the mentioned changes according to the regulation determined in the Nasdaq CSD rules.

If the Issuer offers Investors a fee for approving the waiver and the waiver is granted, the Issuer transfers the fee amount to the account stated by an Investor in the questionnaire not later than twenty Business Days after the waiver comes into force.

6. Taxes

6.1. Notice

This summary is of general nature and should not be considered a legal or tax advice. This section does not contain full and complete information on all the taxes that relate to investment in the Notes. Tax rates and conditions for paying taxes may change during the life of the Notes. Prospective Investors should consult with their own tax advisors with respect to their particular circumstances and the effects of the Latvian or foreign tax laws to which they may be subject to.

Issuer is not obliged to withhold reduced tax rate if Double Tax Treaty stipulates it and Investor has submitted all necessary information to the Issuer.

6.2. Definition of residents and non-residents

An individual is considered resident of Latvia for tax purposes if his or her permanent place of residence is Latvia; or he or she stays in Latvia for more than 183 days within any 12-month period; or he or she is a citizen of Latvia and is employed abroad by the government of Latvia. If an individual does not meet any of the above-mentioned criteria, he or she is considered a non-resident for tax purposes.

Any legal entity is considered resident of Latvia for tax purposes if it is or should be established and registered in Latvia according to the Latvian legislation. Other legal entities are considered non-residents for tax purposes.

Table 1. - Tax consequences in Latvia regarding the income derived from Notes that are issued by a legal entity registered in Latvia (not being a credit institution) effective as of 1 January 2021:

Legal status of income beneficiary	Notes that are not in the Public Circulation		Conditions
	Interest tax rate	Capital gains tax rate	
Individual resident of Latvia	20%	20% [1]	20% tax from the interest (coupon) income is withheld and transferred to the State budget by an Issuer of Notes, if it is registered in Latvia. [1] - Capital gains from a sale of Notes are considered equivalent to an interest income and taxed at 20% rate in Latvia. Self-assessment and payment of a tax on capital gains [i.e. profits] in Latvia is performed by a beneficiary of capital gains – a resident individual filing the Annual Income Statement.
Company resident of Latvia	deferred: 20/80 of the beneficiary's net profit distributed (equals to 20% of the gross profit)	deferred: 20/80 of the beneficiary's net profit distributed (equals to 20% of the gross profit)	Interest (coupon) income and a capital gain from the Notes not being in the Public Circulation constitute a part of the beneficiary - Latvian company's overall income. The Corporate Income Tax obligation is deferred to the moment of profit distribution (dividends, interim dividends) or deemed profit distribution (deemed dividends, non-business expenditure, bad debts provisions/write-off, loans to the related persons, transfer pricing adjustments, liquidation quota) of the beneficiary - Latvian company. The tax is assessed and paid based on the Corporate Income Tax Return filed for a taxation period (a month or year).

Individual non-resident	20% [2, 4]	20% [3, 4]	20% tax from the interest (coupon) income is withheld and transferred to the State budget by an Issuer of Notes, if it is registered in Latvia. [2] - The reduced 10%, 7%, 5%, 2.5% or 0% tax rate on interest (coupon) income can be applicable in Latvia only, if provisions of the Double Tax Treaty concluded between Latvia and other relevant country stipulate it. [3] - A capital gain from the Notes is considered equivalent to an interest income and taxed at 20% rate. The purchaser of the Notes, if it is registered in Latvia, performs calculation and withholding of a tax on capital gain [i.e. a profit]. If no profit is derived from a sale transaction, the 20% tax is not withheld/paid. The Double Tax Treaty provisions may stipulate a tax exemption in Latvia for a capital gain derived by a non-resident individual. [4] - A non-resident individual being a beneficiary of interest (coupon) income or a capital gain could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country, which may or may not be higher than the one applicable in Latvia.
Company non-resident	exempt [5, 6]	exempt [6]	Interest (coupon) income and a capital gain derived by a non-resident company (except a company from one of the "black listed countries or territories") are tax exempt in Latvia. [5] - An issuer of Notes withholds 20% tax from interest (coupon) payments, if they are made to a company non-resident registered in one of the low tax or non-tax countries or territories specified by the Cabinet Regulations of Latvia (so called "the black listed countries and territories"). [6] - A non-resident company being a beneficiary of interest (coupon) income or a capital gain could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country, which may or may not be higher than the one applicable in Latvia.

Source: Legal acts of the Republic of Latvia

7. Terms of the Offering

7.1. Subscription to the Notes

7.1.1. Subscription period

The initial offering shall commence on 1 February 2021 at 10:00 and shall end on 5 February 2021 at 16:00.

7.1.2. Subscription terms

Subscription orders to the Notes can be submitted to the Arranger every Business Day during normal working hours. More detailed information on the submission of the subscription orders is available by phone +371 67 081 069.

Subscription order can also be submitted to other Custodians, which in turn shall submit orders to the Arranger. The form of such subscription orders are regulated by contracts between Investors and Custodians and by the applicable Legal acts.

The total Nominal value of subscribed Notes should be stated in the subscription order. Investors have the right to submit several subscription orders during the offering. Subscription orders to the Notes are irrevocable. The Arranger will register all submitted subscription orders of its clients according to legal requirements and internal procedures.

By submitting the subscription order the Investor confirms that it (i) has read and understands the Terms of the Issue, (ii) agrees and commits to adhere to the Terms of the Issue.

Minimum subscription size for Notes is EUR 100,000 (one hundred thousand euro) with minimum step of EUR 1,000 (one thousand euro). Subscription size should adhere Settlement Unit Multiple.

7.1.3. Notes price

Notes purchase price can be equal to 100% (one hundred per cent) of the Nominal value.

All subscription orders that were aggregated during the subscription period with the First Settlement Date as of 12 February 2021 will be delivered without accrued interest.

7.1.4. Reduction of the Notes issue size

At any time the Issuer may decide to discontinue offering of the Notes. The total issue size is equal to the actual issue size of the Notes before such decision.

7.1.5. Allocation of the Notes to investors

As a general principle, if the total number of Notes subscribed for is equal to or less than the number of the Notes, the Notes will be allotted based on Subscription orders placed.

In case the total number of the Notes subscribed for is higher than the number of the Notes and it is decided to reduce the subscriptions placed, the following allocation principles will be used:

I. Subscription orders with a subscription size of EUR 100,000 (one hundred thousand euro) will be allocated in full.
II. Subscription orders exceeding EUR 100,000 to be allocated as follows:
    a. First EUR 100,000 to be allocated in full;
    b. To the remaining part of the Subscription order proportionate reduction principle will be applied to the extent possible.

However, the Arranger and/or Issuer at its sole discretion has a right to refuse to allocate all of the subscribed Notes to any Investor, if Arranger and/or Issuer decides that the Investor may bear increased AML and Sanctions compliance risk.

7.2. Settlement and delivery of the Notes

The First Settlement Date of Notes is 12 February 2021. All subscription orders that were aggregated during the subscription period with settlement date 12 February 2021 will be delivered without accrued interest.

The settlement date for the Notes can be any Business Day which is not earlier than the second Business Day and not later than the 20th Business Day after subscription order is duly submitted to the Arranger.

Settlement of the Notes will be executed through the Nasdaq CSD as DVP (delivery versus payment) transactions according to the applicable Nasdaq CSD rules and Operating Manual. The Custodians execute payments for the Notes based on the results of the subscription provided by the Arranger. The Notes will be transferred to Investors’ financial instrument accounts on the settlement date.

Settlement for the Notes can be executed according to other procedure, which is agreed to by the Arranger and Investor.

7.3. Pre-emptive rights

None of Investors has the rights of pre-emption in respect to acquisition of the Notes in the initial placement.

8. Including of the Notes on the market and trading regulations

The Issuer plans to request the admission to trading of the Notes on First North within 6 months after the Issue Date and submit Terms of the Notes Issue and company description with Nasdaq Riga. The Issuer does not undertake to register the Notes prospectus with the FCMC or list the Notes on any regulated market.

The Issuer has not signed any agreement with any person for Notes liquidity maintenance on the secondary market.

9. Additional Information

9.1. Advisors involved in the Issue

The Issuer has concluded an agreement with the Arranger to organize the Notes issue, to communicate with the Nasdaq CSD, market it to Investors and conduct settlement during the subscription period. The Arranger may provide other services to the Issuer in the future and receive remuneration for it. The Arranger may invest its own funds in the Notes.

The Issuer has concluded an agreement with the Financial advisor to prepare documentation and conduct negotiations with Investors. The Financial advisor may provide other services to the Issuer in the future and receive remuneration for it.

9.2. The external audit of the information included in the securities description

The auditors have not verified the information included in the securities description.

9.3. Statements or reports included in the securities description

The securities description does not contain any expert statements or reports.

9.4. Credit ratings

There is no credit rating assigned to the Issuer or to the Notes issue.

10. The Issuer

10.1. General Information on the Issuer

The Issuer is Akciju sabiedrība "ELKO GRUPA".

The Issuer’s registration number is 40003129564 and legal entity identifier is 549300TNFQRZUIMUKG02.

Legal address and location of management and production is 4 Toma street, Riga, Latvia, LV-1003.

Legal form: Joint Stock Company, legal status — legal person.

Country of location: Republic of Latvia.

The Issuer carries out its activities in accordance with the legal acts of the Republic of Latvia.

The main regulatory enactments which regulate Issuer’s activities are the Commercial Law, the Civil Law, the Labour Law of the Republic of Latvia and any applicable Cabinet Regulation and/ or Regulatory Act of the Republic of Latvia.

10.2. A description of the Issuer’s position within the group

At the moment of signing the Terms of the Issue, the Issuer is an operating company and holds majority interest in sixteen Subsidiaries:

- ELKO Lietuva UAB
- ELKOTEX d.o.o.
- ELKO Eesti OU
- ELKO PolskaSp.z.o.o.
- ELKOTech Romania SRL
- WESTech spol. s r.o.
- WESTech CZ s r.o.
- ELKO Trading Switzerland A.G.
- ELKO Marketing Ltd.
- ELKO Mobile Ltd.
- ELKO Ukraine LLC
- ELKO Rus LTD
- Gandalf Distribution AB
- ELKO Trading Malta LTD
- Absolut Trading House
- Arašid spol. s r.o.

10.3. Auditor

The Issuer’s financial auditor of the last audited annual report is SIA “Ernst & Young Baltic” (registration number: 40003593454, legal address: Muitas iela 1A, Riga, Latvia, LV-1010).

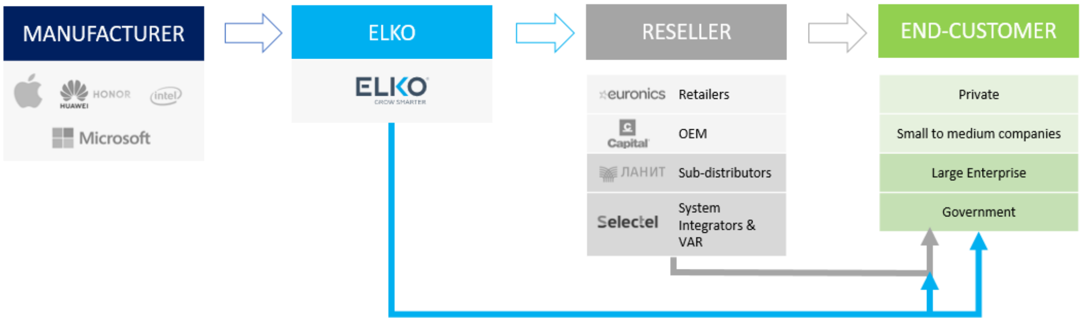
11. Business of the Issuer

11.1. Brief summary

ELKO Group is one of the leading IT products and consumer electronics distributors operating in the CIS, CEE, Nordic region and Baltic countries. The Group was established in Latvia in 1993 and its principal activity is the wholesale distribution of desktop solutions, mobile solutions, server and security solutions, consumer and multimedia products, monitors and software, achieved through the wide network of its subsidiaries and cooperation partners. The Group distributes a broad range of products from leading international vendors. Based in Riga, Latvia, ELKO Group currently sells its products in 31 countries and has subsidiaries in 14 countries. The Group employs almost 1 500 people. Consolidated revenue in 2019 reached USD 1 883 million, in the first 9 months of 2020 revenue reached USD 1 4956 million. In November 2020, the Group's revenue for the first time ever exceeded USD 2 000 million.

ELKO Group reaches end consumers via resellers and direct sales channels The Group bridges the gap between large manufacturers and regional resellers

Image 1. – Business model of ELKO Group



11.2. Operating environment

ELKO Group operates in the IT industry that ranks as one of the largest industries in the world. The IT market is forecasted to reach a size of over five trillion dollars in 2019, and over six trillion by 2022. While the United States and Western Europe remain largest markets for IT producers, International Data Corporation (IDC) forecasts that total IT spending (including telecom and business services) in the CEE region will total USD 136.7 billion in 2019, with an expected compound annual growth rate (CAGR) of 2.9% through 2023.

ELKO Group operates in 31 countries across Europe, mainly the Central and Eastern Europe, and the CIS region. ELKO Group's revenue depend on political, macroeconomics and legal environment in the EU and non-EU regions. Countries that are part of the European Union exhibit more homogeneous development where economic cycles tend to be highly correlated. ELKO Group distinguishes four main regions – the Baltics, the CEE, the CIS and the Nordic region.

11.2.1. The Baltic region

Latvia, Estonia and Lithuania were the first markets for ELKO Group and the Group has offices in all three countries. The markets are rather small, with total number of inhabitants of little over 6 million. There has been a steady recovery after the deep recession in 2008-2009 and the gross domestic product (GDP) has steadily grown since then. In 2020, due to Covid-19, it is expected that their economies will shrink by 2.0% - 6.0%, followed by a swift recovery in 2021, according to IMF forecasts. Rising disposable incomes, inflow of foreign direct investments and Eurozone membership have allowed the region to continue its fast paced IT industry development, with the Baltic countries ranking as one of the best for IT companies and fintech start-ups in general. ELKO Group has stable operations and is well established in this region.

The Baltic region constituted 7% of total ELKO Group's revenue in the first 9 months of 2020.

11.2.2. Central and Eastern Europe region

ELKO Group's second largest region is the CEE. This region includes many countries and ELKO Group has chosen Czech Republic, Slovakia, Poland, Romania and Slovenia as countries where it has subsidiaries and offices. Total number of inhabitants in these countries is more than 75 million. The size of the countries and their economic development has quite a large amplitude. Slovenia has the highest GDP per capita of USD 26.2 thousand and Romania the lowest at USD 12.5 thousand. Most of the countries that constitute the CEE market for ELKO Group posted solid GDP growth in the previous years. However, due to Covid-19 it is expected that these economies will shrink by 3.5% - 7.0% in 2020, followed by a rapid rebound in 2021. Other countries (mostly in Balkan region) which are serviced without direct presence (Hungary, Serbia, Bulgaria and Croatia experience similar economic patterns.

Czech Republic, Poland, Slovakia, Romania, Slovenia, Hungary, Bulgaria and Croatia are members of the European Union, Slovakia and Slovenia have euro as their official currency. Other countries in which ELKO Group may operate in this region are not members of the EU (e.g. Bosnia and Herzegovina).

CEE region contributed 20% of the total revenue in the first 9 months of 2020 and is the largest region for the ELKO Group in terms of number of clients (42%). From time to time ELKO Group may have insignificant business with partners in neighboring countries.

11.2.3. CIS region

The most important region for ELKO Group is Commonwealth of Independent States (CIS). ELKO Group has subsidiaries and offices in Russia and Ukraine. Russia being the largest country in Europe in terms of inhabitants (144 million) offers ample of business opportunities. ELKO Group started business in Russia in 1995.

Russia’s economy is highly dependent on the oil and gas industry. The country has experienced problems in the previous years due to political and economic factors. For example, drop in oil and gas, devaluation of national currency, war and economic sanctions. In spite of this, Russia has posted GDP growth in the previous 5 years. In 2020, due to Covid-19 outbreak, it is forecasted by the International Monetary Fund (IMF) that Russia’s economy will shrink by 4.1%, after that returning to growth of about 3% per annum.

Political and economic turmoil in Ukraine started at the end of 2013. The country experiences rapid decline of GDP (-9.8% in 2015), high levels of inflation (close to 60% in 2015) and significant drop in the value of national currency (from UAH 8 per 1 USD to UAH 22 per 1 USD). Since 2016, the situation has become more stable and the country has seen GDP growth of around 2.5% per annum. However, due to the Covid-19 pandemic, it is forecasted that Ukraine’s economy in 2020 will shrink by 7.2%. After this, similarly as in Russia, IMF forecasts that the country will return to GDP growth of around 3.0% per annum.

During the first 9 months of 2020, most of the ELKO Group’s revenue (59%) was generated in the CIS market. ELKO Group is top 3 distributor both in Russia and Ukraine for each of its key vendors.

11.2.4. Nordic region

Nordic region is the newest one for ELKO Group, as the Group entered the Swedish market in 2017 through an acquisition. Sweden is the only Nordic country with an ELKO Group office. However, the Group is also present in Norway, Finland and Denmark. Total number of inhabitants in these countries is around 20 million. All of these countries have well developed economies with high purchasing powers. Growth has been broad-based over the past five years, with consumption, investment and exports all contributing significantly; meanwhile, strong domestic demand has pushed up imports. As in developed markets, the GDP growth has been stable and around 1.5% per annum for the previous years. However, due to the Covid-19 pandemic, it is forecasted that their economies in 2020 will shrink by around 4-8%, rebounding in 2021 with stronger growth than usual.

The Nordic region generated 14% of the ELKO Group’s total revenue in the first 9 months of 2020 and the Group continuous to broaden its presence in this region.

11.3. Competition

ELKO Group faces strong competition in all of its markets – the CIS region, the CEE region, Baltics and Nordic region. The Group mainly competes with multinationals and large regional players – Also, Ingram, Asbis, Merlion, MTI, Tech data, TD Baltics. Some of the competitors are smaller than ELKO Group in terms of revenue but others are international players listed on stock exchanges and have access to cheaper funding than the Issuer. ELKO Group strives to be top 3 distributor in each of its markets and top 3 with each of its vendors. ELKO Group’s broad cross-border presence has allowed ELKO Group to mitigate its exposure to competition in any particular market.

Competition in the market for the distribution of IT products is generally based on vendor and product selection and availability, price, ability to tailor solutions to specific customer needs, service, support and training, willingness to provide credit, ability to provide logistics services on behalf of the vendor and speed of delivery.

Each IT and consumer electronics distributor tries to differentiate itself by offering wider products range, financing options, delivery speed including availability of certain products in own warehouses.

The main barriers to entry in distribution industry are vendor relations, which may include geography limitations, availability of own capital as well as vendor and bank financing availability, accounts receivable insurance terms and prices. Know-how of certain processes is developed internally and is hard to replicate.

11.4. Strategy

ELKO Group's strategy is to be the most visible distributor of IT and consumer electronics products and to be top 3 distributor for each major brand within each region.

11.5. Main activities

ELKO Group is a distributor of IT and consumer electronics hardware and software as well as provides IT solutions. ELKO Group has to manage relations with vendors, which are usually well known global manufacturers, with logistics partners that have to ensure timely deliveries and clients that are located in various countries and vary in terms of purchasing volumes, product mix, payment options etc.

11.5.1. Clients

ELKO Group has a wide and diversified client base, which includes more than 10 000 clients as of 30 September 2020. The Group has significantly grown its client base in the last 5 years, doubling its number of customers from around 5 000 in 2015 to over 10 000 in 2020. Throughout the years the top 30 largest clients have generated around 40% of ELKO Group's revenue and in the first 9 months of 2020 generated 38% of total revenue.

Table 2. - Share of revenue for Top 10 and Top 30 clients

Year	Share of TOP10 in revenue	Share of TOP30 in revenue
2017	27%	41%
2018	29%	42%
2019	25%	34%
9M 2020	22%	38%

While the majority of turnover is generated in the CIS region, majority of clients are in the CEE region. ELKO Group's split of clients by region is as follows: 42% of clients are in the CEE region, 32% are in the CIS region, 21% are in the Baltic countries and 5% of clients are in the Nordic countries. To diversify its regional presence within Eastern Europe, ELKO Group expanded its client base throughout the region.

Sales approach and principles varies from product groups and customer segmentations. Customers in all countries are segmented to 5 groups: retailers and internet shops, sub-distributors and resellers, GSM retails, system integrators, OEMs and VARs. Depending from the customer groups varies provided distributions services mix in terms of logistic, finance, product stocking, technical pre-sales or after-sales, account handling, marketing support and etc.

More about ELKO Group's client types:

- Retailers and internet shops
    - Largest client group with approximately USD 585 million of ELKO Group's sales during the first 9 months of 2020, that is 39% of total revenue;
    - Supermarkets, hypermarkets, large retail electronic chains etc.;
    - Significant demand for notebooks and consumer electronics;
    - Client examples: MVideo, Ozon, Netonnet;
    - Demand special terms and very long payment periods.
- Sub-distributors and resellers
    - Second largest client group with approximately USD 495 million of ELKO Group's sales during the first 9 months of 2020, that is 33% of total revenue;
    - No direct contact with vendors;
    - Tend to supply niche markets (either geographic or product);
    - Sometimes act as sub-distributors;
    - Client examples: Orion, Merlion, Lanit;

    - Resellers tend to work as product brokers, taking an opportunistic approach to buying.

- GSM retail channel
    - Approximately USD 225 million of ELKO Group's sales during the first 9 months of 2020, that is 15% of total revenue;
    - Customer segment mainly for GSM business;
    - Channel segmented from retailers, e-tailers and resellers. Addition to classical retail channel;
    - Significant demand for mobile phones, smartphones and tablets;
    - Example clients: RCS Holland, Next concept, Telepart distribution;
    - Demand special terms and very long payment periods.

- System Integrators (SI)
    - Approximately USD 105 million of ELKO Group's sales during the first 9 months of 2020, that is 7% of total revenue;
    - Sell self-assembled PCs for special IT projects;
    - Can generate significant volume on large projects;
    - Large system integration projects require competitive pricing and guaranteed lead time;
    - Client examples: Selectel, RDP, Rostelekom;
    - ELKO Group adds significant value with product knowledge, expertise and wide product portfolio, helping SI's to build complete solutions.

- Original Equipment Manufacturers (OEMs) and Value-Added Resellers (VARs)
    - Approximately USD 90 million of ELKO Group's sales during the first 9 months of 2020, that is 6% of total revenue;
    - PC assemblers who buy components from multiple sources and construct own-brand PCs;
    - Require regular supply and 'just-in-time' shipments;
    - Client examples: Aquarius, Depo computers, Capital AS;
    - Tender requests requiring competitive pricing and guaranteed shipments provide additional volume.

ELKO Group has no plans to alter any of its sales channels. In the future changes could occur due to Group's solutions portfolio expansion.

Distribution of IT hardware and consumer electronics exhibits some seasonality due to active holiday shopping and public tenders each year during the fourth quarter (October – December), which also means high levels of accounts receivable and extensive use of credit lines during the same period. At the same time the second quarter (April – June) has the smallest revenue and in turn allows for lower levels of working capital.

Efficient inventory management allows to make timely deliveries with the lowest amount of tied up capital.

11.5.2. Client credit risk management

ELKO Group internally evaluates each client and possibilities to sell on credit. In most cases, invoices are paid within 7 to 90 day period. Credit risks are regulated by credit policy. For every sales office, there is individual credit policy in place and while all policies share the same framework, each policy takes into account local nuances.

HQ credit control is responsible for implementing and maintaining credit policies for every sales office, control of credit policy obedience and maintaining overall credit risk at low level. Each sales office has dedicated credit controller that is responsible for credit control implementation and maintenance at office level. Local credit control is supervised by HQ credit control team.

Furthermore, ELKO Group uses other tools to mitigate credit risk starting from blocking all shipments to any customer with delay, continuing with sophisticated alert system that signalizes about changes in customers payment and buying habits, and ending with different kinds of collaterals for limits. Cash deposits, bank guarantees, and trade credit insurance are used.

As of 30 September 2020, the share of insured accounts receivable of ELKO Group were 54%.

Due to market circumstances, ELKO does not use trade credit insurance in Ukraine. Nevertheless, Ukrainian customers undergo rigorous evaluation prior limit approval and close monitoring in further cooperation.

Quality of ELKO Group's internally developed credit scoring has led relatively low allowance for impairment of trade receivables.

Table 3. - Quality of trade receivables, 2016-2019, USD thsd.

	31.12.2016	31.12.2017	31.12.2018	31.12.2019
Trade receivables	**274 464**	**208 390**	**253 305**	**228 548**
Allowance for Impairment	(200)	(700)	(3 800)	(1 900)
As % of total Receivables	0.07%	0.34%	1.50%	0.83%

11.5.3. Product portfolio

ELKO Group has an ability to offer large range of IT and consumer electronics products. The product mix determined by relations with particular vendor and demand in the regions where ELKO Group operates. Overall the Group distributes more than 40 000 IT and consumer electronics products from more than 400 leading IT manufacturers.

During the years ELKO Group has added new product groups and decreased reliance on sale of computer components and mobile communications. The Group actively seeks new product opportunities to increase its regional presence and operational diversification to better keep up with industry trends.

Table 4. - Breakdown of revenue by product segments, 2017-2020

Segment	Share in revenue, %			
	2017	2018	2019	9M 2020
Software	2%	2%	3%	3%
Solutions & Value Added Services	3%	4%	5%	4%
TV Sets	-	6%	7%	6%
Major Domestic Appliances	-	7%	9%	10%
Home & Office Electronics, Peripherals	6%	6%	7%	8%
Personal Computing	20%	14%	15%	14%
Mobile Communications	39%	35%	28%	30%
Components	30%	26%	26%	25%

11.5.4. Vendor relationship management

ELKO Group actively manages product portfolio through diligent selection of vendors and vendor diversification. The main criteria are:

- product quality,
- pricing strategy,
- marketing strategy,
- logistic setup,
- finance services,
- partner enablement services,
- after-sales.

ELKO Group has established general rules of vendor portfolio development considering: product group, products segmentation and characteristic, vendor maturity in terms of R&D investment, local persistence and engagement in channel, vendor recognition on particular market, vendor market share and cross vendor strategic alignment. ELKO Group revises vendors and product mix to develop its product range in line with industry trends.

As of 30 September 2020, ELKO Group works with more than 400 leading IT product manufacturers. The Group has forged strong and long lasting relationships with all of its main vendors (for some the relationships span decades) and for 31 brands ELKO Group is the only sizeable distributor in specific regions, providing de facto exclusive distribution rights. Currently the largest vendors are Apple (20%), Huawei (12%) and Intel (7%). However, the vendor mix has changed throughout the years to better suit client's needs. At the end of first 9 months of 2020, no vendor made up more than 20% of ELKO Group's total revenue.

Table 5. - Breakdown of revenues by vendors, 2017-2020

Vendor	Share in revenue, %			
	2017	2018	2019	9M 2020
Apple	18%	14%	16%	20%
Huawei	8%	23%	17%	12%
Intel	7%	6%	7%	7%

Samsung	2%	4%	4%	5%
Acer	4%	3%	4%	4%
LG	1%	4%	5%	4%
Seagate	4%	4%	4%	4%
Lenovo	15%	5%	3%	3%
WD	6%	3%	3%	3%
Microsoft	2%	2%	2%	2%
Other	33%	32%	35%	36%

Each vendors has its own sales and promotions program. Programs differs from the aim of the program, there are: Sales out programs, sales in programs, price protection programs, special price programs, different type of marketing programs, with different details and maturity. Majority of the sales programs include calculating back end rebates, which is a crucial term in the industry.

Product distribution in a certain market goes hand in hand with a particular marketing strategy, which varies from vendor to vendor. There is complex mixture of vendor engagement in distribution channel or direct end customer marketing. Marketing programs vary from 100% support of marketing activities with different marketing budget to 0% marketing support. Public relations campaigns could be at sole vendor decision or joint with distributor or customers in different co-budgeting variations.

Each year vendors publicly acknowledge their best distributors with awards. During the past several years ELKO Group has received awards from Huawei, Lenovo and others.

11.6. Logistics

ELKO Group currently has subsidiaries in 14 countries and sales in 31 countries. Large part of consumer electronics products are manufactured in the People's Republic of China. ELKO Group receives the goods in its logistics hubs (located in the Netherlands, Finland and Latvia) or directly to its warehouses in countries of operation. The Group relies almost entirely on arrangements with third-party warehouses were ELKO Group is the anchor lessee.

Typically, large product deliveries are delivered by vendors to one of the above-mentioned hubs, where the delivery is further split and transferred either directly to customers or to one of the smaller warehouses at the regional offices as every region has its own warehouse. Smaller deliveries could be directly delivered to regional warehouses.

ELKO Group's hub in Finland is mainly used for CIS-bound merchandise shipments. The Riga warehouse serves the Baltic region. The Company's decision to lease/outsource rather than buy property has been a consistent strategic choice to minimise capital expenditure and provide a flexible platform that can support rapid growth.

Procurements are partly organized on Group level via transit warehouses, while the majority are locally purchased. The Group primarily works with owned equipment and internal employees in its warehouses, picking the merchandise manually with scanners. Storage risks are fully insured. Regular warehouse security audits are performed, and warehouse security set-up is constantly improved as well as internal security procedures.

Inbound transportation is fully outsourced or even managed by vendors. Only well known and tested partners conduct deliveries (for example, DHL, HRX, DSV, TNT, Schenker, KuehneNagel, Hellmann, Ace Logistics and others. For every shipment 2-3 scenarios are evaluated to make the best decisions based on price and delivery time aspects. Main transportation modes used – Road, Marine, Air. In limited instances, vendors will provide transportation and delivery directly to the customer at no cost to the Group, in which case ELKO enjoys such cost savings. Transportation risks, including transit, are fully insured.

ELKO Group constantly focuses on reducing logistics cycle times, which is a critical component of its competitive advantage as well as a key factor for success in working capital management.

11.7. IT systems

ELKO Group extensively uses IT systems in its daily operations. The main two are Enterprise Resource Planning (ERP) system Oracle JD Edwards Enterprise One and eCom. ELKO Group run all core IT systems in the private cloud setup managed by HQ. All sales offices remotely connect to the HQ data center to consume required services: ERP system, e-commerce platform, CRM, intranet portal, document management system, file storage, e-mail system.

All IT systems are reinforced by Tier-3 data center and third location holding all backup data with additional off-line stored tapes with three months depth of data. In case of main site failure, backup data center has all data and server replicas in order to continue operations seamlessly.

eCommerce – the process by which customers place their orders with a distributor directly online, has moved to the forefront of trends in the IT distribution industry. ELKO Group was among the market leaders in the markets in which it operates in developing its B2B eCommerce site, eCom. As a result of eCom, the Group improved logistics performance, reduced costs, increased quality of service, enhanced customer experience and loyalty and distinguished itself from its competitors.

ERP system JD Edwards performs role of accounting, order management and backend of online inventory. It is a well proven solution for companies in finance, human resources, distribution, consumer goods, and manufacturing sectors. With the successful implementation of the JD Edwards operating system, not only is ELKO Group able to monitor its inventory, it is also able to provide its vendors with the status of its sales and inventory, all on a real-time basis. JD Edwards platform enhances the quality and transparency of its relationships with vendors, which, as a result, ELKO Group expects will lead to more favorable credit terms and the foundation to develop new vendor business.

ELKO Group uses JD Edwards to control its cash flow, product flow and inventory, as well as to support communications, most significantly in the sales process. The JD Edwards system controls order entry from subsidiaries, backlog and inventory level and tracks all inventory from the moment it leaves the vendor to delivery to the customer, and all stops in between. As a result, the status of inventory can be monitored on a real-time basis.

Majority of the ELKO business processes in purchasing, sales, finance and logistics are automated in JDE across all sales offices.

In-house team of JDE developers makes new project development and system modifications as mandated by Group governance body with the help of project management office. In response to the need of 100% remote operations by ELKO staff, all systems are remotely available. Infrastructure team has received Microsoft Gold Partner status award.

All systems are constantly monitored for vulnerabilities from within using various software tools and by performing internal audits of processes compliance to agreed procedures. Every quarter external supplier performs penetration and vulnerability testing of exposed external points: web sites, e-Com, API.

11.8. Employees

ELKO Group financial achievements in large part depend on the management's ability to hire, train and motivate employees, who are spread across all the countries where ELKO Group is represented. During the past several year the total number of employees has been around 1 450. Most of employees are located in Russia, Slovakia and Latvia.

Table 6. - Employees by country, 30 September 2020

	Employees	Share of employees
Latvia & HQ	246	17%
Russia	547	37%
Slovakia	317	21%
Ukraine	157	11%
Czech Republic	66	4%
Romania	57	4%
Sweden	46	3%
Baltics & Poland (excl. Latvia)	26	2%
Slovenia	20	1%
Total:	**1 482**	**100%**

Two main departments are sales and logistics, where 55% of all employees are working.

Table 7. - Employees by department, 30 September 2020

	Employees	Share of employees
Logistics	414	28%

Sales	403	27%
Distribution	169	11%
RMA & SOL	167	11%
Finance	121	8%
HR, Legal, Marketing, office	109	7%
IT	77	5%
Executive	22	1%
Total:	**1 482**	**100%**

11.9. Management of the Issuer

- **Egons Mednis** (Chairman of Board, President, Co-founder)

Holds a higher education diploma from Riga’s Polytechnic Institute / Faculty of automatics and computer technology (1992). Shareholder and one of the founders of ELKO Group. In 1993, Egons took the position of Sales Director and since then has played a vital role in ELKO Group’s development.

- **Svens Dinsdorfs** (Member of Board, CEO)

Holds an MSc from Stockholm School of Economics (2003) and BSc from Stockholm School of Economics in Riga (1998). Svens joined ELKO Group in 2006 as CFO before being promoted to the senior role at the beginning of 2015. Previous experience includes airBaltic and Sirowa Group.

- **Vadims Rabsa** (Member of Board, CFO)

Holds a BSc from Stockholm School of Economics in Riga (2000). Previous experience as CFO and Member of the Board at VP Holding LLC (2016-2017) and JSC Grindex (2007-2016).

- **Martins Ozolins** (Member of Board, Acting Commercial Director)

Holds an MBA from Riga Technical University (2007) and BSc from Stockholm School of Economics in Riga (2002). Martins joined ELKO Group in 2010 as Head of Treasury and since then has taken various roles throughout the years – Regional Director (2015), Deputy Distribution Director (2016-2017).

11.10. Council of the Issuer

The council of Issuer consists of four members:

- Andris Putāns (Chairman of the Council)
- Indrek Kasela (Deputy Chairman of the Council)
- Kaspars Viškints (Council Member)
- Ēriks Strods (Council Member)

11.11. Shareholders of the Issuer

At the moment of signing the Terms of the Issue, the current structure of the Issuer’s shareholders is as follows:

Table 8. - Issuer’s shareholders structure

Legal name	Beneficiary	% of the total number
ASHINGTON BUSINESS INC. LIMITED	Stanislav Matveev (Malta)	23.74%
SOLSBURY INVENTIONS LIMITED	Alexander Yamnitskiy (Israel)	23.66%
EUROTRAIL SIA	Kaspars Viškints (Latvia)	13.16%
WHITEBARN SIA	Andris Putāns (Latvia)	13.16%
KRM Serviss SIA	Egons Mednis (Latvia)	12.87%
Solo Investīcijas IT SIA	Jānis Strods (Latvia)	12.24%
Management team	Various employees	1.17%
	Total:	**100%**

At the moment of signing the Terms of the Issue, the Issuer has no information at its disposal regarding any agreements, the fulfilment of which might cause changes in the Issuer’s control.

11.12. Legal proceedings and arbitrage

At the moment of signing the Terms of the Issue, the Issuer are not involved in any government interventions, lawsuits or arbitrage processes, which may significantly affect or have significantly affected the financial situation or profitability of the Issuer.

11.13. Substantial changes in financial situation of the Issuer

As of the publication of the last financial statement, the financial situation or performance of the Issuer has not worsened. The Issuer is unaware of any factors, claims, obligations, or events which would negatively affect the financial situation or performance of the Issuer in future.

11.14. Important agreements

The Issuer has no knowledge of any other important agreements or internal decisions that could have been concluded within the company or between the Issuer and any related company and that could affect the Issuer’s capability to fulfil its liabilities due to Investors regarding the securities to be issued.

11.15. Significant recent and known trends

During 2020 many economic sectors were affected by Covid-19 virus outbreak. For detailed information on risks see Section 2 “Risk factors”.

At the moment of signing the Terms of the Issue, the Issuer has no information at its disposal regarding any known trends that have negatively affected the Issuer or the activity, apart from the aforementioned Covid-19 impact.

11.16. Documents available to the public

All the interested parties have the possibility to be acquainted with the following documents:

- Standalone financial information of the Issuer at Commercial Register of Latvia;
- financial reports, operating results and other information to be published by issuers as stipulated by legal acts of the Republic of Latvia and the regulations of Nasdaq Riga – after the Notes are listed on the First North.

Terms of the Issue are available upon request.

12. Financial information

The last reported and audited equity of the Issuer is USD 85.95 million and interesting-bearing loans from Related Parties is USD 33.43 million Since loans from Related Parties will be subordinated to claims of Investors, total amount of equity and loans from Related Parties is USD 119.38 million. Issuer does not provide pro forma financial information.

The profit/loss forecast has not been carried out.

Information, which is disclosed in this section of the Terms of the Issue, is taken from the Issuer's audited financial reports that are approved by the Issuer's management. The annual reports are prepared according to the IFRS.

12.1. Income Statement

Table 9. - Issuer's consolidated income statements, 2018-2019, 01.01.2020-30.09.2020, USD thousands

	2018 (audited)	2019 (audited)	9 months 2020 (unaudited)
Sale of goods and services	1 768 120	1 882 817	1 495 537
Cost of sales	(1 685 488)	(1 783 148)	(1 411 720)
Gross profit	**82 632**	**99 669**	**83 817**
Selling and distribution costs	(12 870)	(12 438)	(12 597)
Administrative expenses	(41 931)	(50 492)	(34 365)
Other operating income	8 559	12 158	4 060
Other operating expenses	(9 156)	(9 669)	(3 949)
Operating profit	**27 234**	**39 228**	**36 966**
Interest income and similar income	810	656	7 817 923
Interest expenses and similar expenses	(11 290)	(12 383)	(2 223 514)
Profit before corporate income tax	**16 754**	**27 501**	**26 826**
Income tax expense	(7 397)	(7 709)	(4 988)
Profit for the reporting year	**9 357**	**19 792**	**21 838**

12.2. Balance sheet

Table 10. - Issuer's consolidated balance sheet at the end of period 2018-2019, 30.09.2020, USD thousands

	31.12.2018 (audited)	31.12.2019 (audited)	30.09.2020 (unaudited)
Non-current assets:			
Intangible asset	968	1 094	1 598
Property, plant and equipment	4 516	5 407	5 129
Right-of-use assets	-	26 982	27 628
Goodwill	1 768	1 603	1 651
Non-current loans	81	138	253
TOTAL NON-CURRENT ASSETS:	**7 333**	**35 224**	**36 259**
Current assets:			
Inventories	170 512	168 896	213 272
Current income tax receivable	1 806	1 152	2 998
Trade and other receivables and prepayments	244 461	268 527	286 598
Derivative financial instruments	605	-	35
Cash deposits	1 500	2 000	1 394
Cash and cash equivalents	51 107	27 328	36 182
TOTAL CURRENT ASSETS:	**469 991**	**467 903**	**540 479**
TOTAL ASSETS:	477 324	503 127	576 738

Equity:			
Issued capital	11 114	11 114	11 114
Share premium	5 996	5 996	5 996
Translation reserve	(9 616)	(9 334)	(12 236)
Retained earnings	90 955	66 904	81 517
Equity attributable to equity holders of the parent company:	**98 449**	**74 680**	**86 391**
Non controlling interests in equity	9 368	11 270	15 241
TOTAL EQUITY:	**107 817**	**85 950**	**101 632**
Liabilities:			
Non-current liabilities:			
Interest-bearing loans and borrowings	602	245	255
Interest-bearing loans from Related Parties (to be subordinated to Notes)	-	20 817	24 422
Lease liabilities	-	21 111	21 111
TOTAL:	**602**	**42 173**	**16 568 847**
Current liabilities:			
Trade and other payables	253 305	228 548	267 534
Contract liabilities	3 985	4 196	-
Interest-bearing loans and borrowings	110 026	120 106	144 741
Interest-bearing loans from Related Parties (to be subordinated to Notes)	-	12 613	6 253
Lease liabilities	-	6 388	6 388
Income tax payable	591	2 262	3 500
Provisions	948	884	902
Derivative financial instruments	50	7	-
TOTAL:	**368 905**	**375 004**	**429 318**
TOTAL LIABILITIES:	**369 507**	**417 177**	**475 106**
TOTAL EQUITY AND LIABILITIES	477 324	503 127	576 738

12.3. Statement of cash flows

Table 11. - Issuer's consolidated cash flow statement for 2018-2019, 01.01.2020-30.09.2020, USD thousands

	2018 (audited)	2019 (audited)	9 months 2020 (unaudited)
Cash flow from operating activities			
Profit before extraordinary items and taxes	**16 754**	**27 501**	**26 826**
Adjustments for:			
a) Depreciation of property, plant and equipment	2 242	1 640	1 604
b) Amortization of Intangible assets	29	228	-
c) Finance income	(810)	(656)	(332)
d) Finance costs	11 290	12 383	10 472
e) Fair value (gain)	(994)	(648)	28
f) Movements in provisions and allowances	739	(64)	22
g) Gain on disposal property, plant and equipment	(4 345)	(92)	(40)
Loss before adjustments of working capital and short-term liabilities	**24 905**	**40 292**	**38 580**
Working capital adjustments:			
a) (Increase) in trade and other receivables	(19 009)	(23 412)	(19 917)
b) Decrease/(increase) in inventories	17 265	1 616	(44 376)

c) (Decrease)/increase in trade and other payables	42 175	(21 495)	29 539
Interest received	810	656	332
Interest paid	(11 290)	(12 383)	(10 472)
Income tax paid	(2 118)	(479)	(4 700)
Net cash flows from operating activities	**52 738**	**(15 205)**	**(11 014)**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment	16 488	-	-
Purchases of property, plant and equipment	(893)	(2 755)	(1 559)
Purchases of intangible assets	(1 170)	(357)	-
Acquisition of a subsidiary	(1 961)	(641)	28
Proceeds from cash deposits	400	500	(606)
Net cash flow from investing activities	**12 864**	**(3 253)**	**(2 137)**
Cash flow from financing activities			
Bonds repaid	(9 265)	-	
Proceeds from bank overdrafts, net	(31 884)	9 780	22 005
Payment of principal portion of lease liabilities	-	(6 997)	-
Dividends paid to equity holders of the parent	(6 107)	(7 000)	-
Dividends paid to the Minority shareholders	(568)	(1 104)	-
Net cash flows from financing activities	**(47 824)**	**(5 321)**	**22 005**
Net cash flow of the reporting year	**17 778**	**(23 779)**	**8 854**
Cash and cash equivalents at the beginning of reporting year	33 329	51 107	27 328
Cash and cash equivalents at the end of reporting year	51 107	27 328	36 182

13. Annexes

Annex 1 – Corporate Presentation

ANNEX 2 – STAND-ALONE FINANCIAL REPORTS FOR YEAR 2020 (IN ENGLISH)

Joint stock company ELKO Grupa

Unified registration number: 40003129564

Annual report for the year ended 31 December 2020
(28th financial year)

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED BY THE EU

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2021

The annual report was reviewed and approved
by the general shareholders' meeting on 22 April 2021

* This version of financial statements is a translation from the original, which was prepared in the Latv language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

CONTENTS

General information

Name of the company	ELKO Grupa
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	000312956 Riga, 14 May 1993 Registration with the Commercial Register on 2 December 2003 unified registration number 40003129564
Address	Toma iela 4 Riga LV-1003 Latvia
Shareholders	Ashington Business Inc. Limited (2,350,736 shares), UK Solsbury Inventions Limited (2,342,351 shares), UK Eurotrail SIA (1,302,762 shares), Latvia Whitebarn SIA (1,302,762 shares), Latvia KRM Serviss SIA (1,274,223 shares), Latvia Solo Investīcijas IT SIA (1,211,956 shares), Latvia Svens Dinsdofts (57,995 personal non voting shares), Latvia Egons Mednis (32,219 personal non voting shares), Latvia Vadims Rabša (12,888 personal non voting shares), Latvia Mārtiņš Ozoliņš (12,888 personal non voting shares), Latvia The par value per share is EUR 1.
Council Members	Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member
Board Members	Egons Mednis – Chairman of the Board with powers to represent the Company individually, President Svens Dinsdorfs – Board Member with powers to represent the Company individually, CEO Mārtiņš Ozoliņš - Board Member with powers to represent the Company individually, Deputy Commercial Officer Vadims Rabša – Board Member with powers to represent the Company individually, CFO
Proctor	Uldis Menģelis – Proctor with representation rights jointly with a Board Member, Principal Lawyer (from 5 January 2017)
Responsible for accounting	Olga Ivanova, Chief Accountant
Reporting year	1 January - 31 December 2020
Auditors	Ernst & Young Baltic SIA License No 17 Muitas iela 1A, Riga Latvia, LV-1010 Iveta Vimba Latvian Certified Auditor Certificate No 153

Management report

Business profile

AS ELKO Grupa (hereinafter - the Company) is one of the largest distributors of IT products in the Baltic countries and Eastern and Central Europe. The Company's core business activity is the wholesale distribution of computer desktop components and peripherals, portable computers, monitors, tablets, multimedia and software products, as well as server, network component and networking solutions, using the wholesale network of the ELKO Grupa subsidiaries and cooperation partners. The Company represents a broad range of well-known IT vendors from all over the world, including Lenovo, Acer, Intel, Seagate, Western Digital, Asus, Microsoft, etc.

The key to the success of AS ELKO Grupa as the parent is its long-term strategy for cooperation with vendors developed over the years, the centralized purchase system, functionality of business process management and financial management.

Financial analysis

The turnover of AS ELKO Grupa for the year 2020 was EUR 600.2 million, up by 26.7% from the year 2019. The turnover growth is mainly related to the overall increase in market activity as well as to the Company's ability to expand the range of its products so as to promptly respond to the market changes.

The Company earned a profit of EUR 9.01 million in 2020. Compared to the year 2019, the net profit grew by EUR 7.7 million, chiefly because of increased turnover and larger dividends that in 2020 totaled EUR 8.4 million 1.7 million, compared to EUR 1.7 million in 2019.

Future prospects

The performance of AS ELKO Grupa is and will be influenced by the macroeconomic, political and overall competitive situation and the development of markets the Company operates in. The key factors driving the Company's growth is the increasing demand in the regions within the scope of the Company's operation and the Company's ability to adapt effectively to the rapid changes in the demand of IT market players (vendors) and the market for new products. The other driving factors contributing to the Company's successful development include the inflow of the EU Structural Funds and the enhancement of local productivity of the companies incorporated in the Baltic countries and Eastern Europe as well as government reforms in the CIS region.

In 2021, the Company will continue developing and optimizing its product portfolio, thus enabling improvement of its performance.

In view of the existing credit risk and IT industry risk, the Company's management has defined as its key priority the working capital management. The Company reviews its credit policy and customer payment terms on a regular basis, specifically focusing on inventory turnover.

Considering the Company's sound financial position and its leading position on the IT distribution market, the Company's management believes that there are strong grounds for subsequent successful operations of the Company.

Subsequent events

Starting from late 2020 until the report issuing date, the global economy is struggling with the consequences of the COVID-19 pandemic.

As a result of the pandemic, many businesses experience decrease in operations, which lead to layoffs and decline in consumption.

Additional information about the situation caused by the pandemic is provided in Note 36 'Events after the end of the reporting period'.

Management report (cont'd)

AS ELKO Grupa structure

The AS ELKO Grupa Group comprises the following subsidiaries: ELKO Lietuva UAB, ELKO Eesti OU, ELKOTech Romania SRL, WESTech spol. s r.o., WESTech CZ s.r.o., ELKOTEX d.o.o., ELKO Trading Switzerland A.G., Elko Trading Malta Limited LLC, Elko Marketing Ltd., ELKO Mobile Ltd., Elko RUS Ltd., Gandalf Distribution AB, TD Absolut LLC., ELKO Polska Sp. z o.o. The subsidiary Elko Marketing Ltd. owns 99.99% of the shares in ELKO Ukraine LLC. The subsidiary WESTech spol. s r.o. owns 26% of the shares in Swiss Spol s r.o. and 51% of the shares in Arašid spol. s r.o.

AS ELKO Grupa has majority shareholding in all subsidiaries.

Financial risk management

Multi-currency risk

AS ELKO Grupa operates internationally and is therefore exposed to foreign currency risk arising primarily with respect to the US dollar, Russian rouble and Ukrainian hryvnia. Foreign currency risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments.

The US dollar is predominantly used by the Company for purchasing goods from vendors, and as well as for selling to its subsidiaries. Sales to Baltic customers are carried out in the euro.

The Company has shareholding in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency, i.e., the euro.

The revenue of the Company is mainly derived in the US dollar. Accordingly, the Company raises financing also in the US dollar and acquires adequate financing instruments to minimize foreign currency risk.

Interest rate risk

AS ELKO Grupa uses current borrowings to finance part of its current assets. Some borrowings are at floating rates, thereby exposing the Company to interest rate risk.

Credit risk
AS ELKO Grupa manages credit risk by means of respective procedures and control mechanisms.

Inventories

AS ELKO Grupa determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/or rapid obsolescence of the products or technological changes will result in excess stock and/or allowances to be established for obsolete items. The Company makes centralized plans for the purchase and sale of products, and the procedures adopted for the ordering of goods help decrease inventory days at warehouses. The weekly inventory analysis decreases the need for allowances for obsolete items.

The risk related to product flow management is partially reduced through price protection arrangements under cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of a decline of market prices for goods which are still kept at the Company's warehouse or have already been ordered.

Liquidity risk

The liquidity risk management policy adopted by the Company provides for the maintenance of sufficient cash and an adequate amount of committed credit facilities with credit institutions. The management of AS ELKO Grupa intends to increase liquidity reserves on the basis of expected cash flows by managing working capital in a more effective manner.

Management report (cont'd)

Events after the end of the reporting period

Existing financing provided by syndicate of banks matures on 31 July 2021. Negotiations on prolongation of the financing fiished and decision for prolongation in the existing limit already received from OP Corporate Bank, Luminor Bank and Swedbank.

In order to diversify financing sources and attract long-term financing, at the beginning of 2021, AS ELKO Grupa issued EUR 20 million unsecured bonds with a maturity of 5 years and a coupon rate of 6% p.a. payable semiannually. The bonds will be listed on the Nasdaq Riga Alternative Market First North list.

Except as disclosed above and in the financial statements, as of the last day of the reporting year there have been no events which could produce a material impact on the Company's financial position as at 31 December 2020.

Profit distribution proposed by the Board

The Board has suggested that the profit earned by the Company for the year 2020 should be transferred to retained earnings for investments and maintaining financial stability of the Company.

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Egons Mednis

Valdes priekšsēdētājs,

Prezidents

Rīgā, 2021. gada 19. aprīlī

Gada pārskats tiks apstiprināts akcionāru sapulcē 2021. gada 22. aprīlī.

Akcionāru sapulces priekšsēdētājs ____________________

Andris Putāns

Statement of Management's Responsibility

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation the financial statements give a true and fair view in all material aspects of the financial position of the Company as at 31 December 2020 and of its operations for the year then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- followed the going concern principle.

The Board of AS ELKO Grupa is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Company and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the EU.

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Egons Mednis
Chairman of the Board

19 April 2021

Financial statements

Statement of comprehensive income

	Notes	2020	2019
		EUR	EUR
Revenue from contracts with customers	5	600,184,430	473,792,898
Cost of sales	6	(585,918,913)	(465,450,321)
Gross profit		**14,265,517**	**8,342,577**
Distribution costs	7	(3,432,938)	(2,895,872)
Administrative expense	8	(12,750,571)	(12,096,653)
Other operating income	9	12,157,098	8,931,654
Other operating expense	10	(5,329,363)	(276,534)
Operating profit		**4,909,743**	**2,005,172**
Finance income	11	8,653,008	2,513,302
Finance costs	12	(4,499,648)	(3,161,097)
Profit before tax		**9,063,103**	**1,357,377**
Corporate income tax		-	-
Net profit for the year		**9,063,103**	**1,357,377**
Other comprehensive income		-	-
Total comprehensive income		**9,063,103**	**1,357,377**

The accompanying notes on pages 13 to 52 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Olga Ivanova

Chief Accountant

19 April 2021

Statement of financial position

	Notes	31.12.2020 EUR	31.12.2019 EUR
ASSETS			
Non-current assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights		331,539	194,439
Total intangible assets:	13	331,539	194,439
Property, plant and equipment:			
Leasehold improvements	14	153,911	164,374
Equipment and machinery	14	21,869	-
Communications and IT equipment	14	626,020	313,306
Other fixtures and fittings, tools and equipment	14	137,190	149,974
Right-of-use assets	14.1	12,764,848	13,792,711
Construction in progress	14	63,899	169,950
Total property, plant and equipment:		13,767,737	14,590,315
Non-current financial assets:			
Investment in related companies	15	9,989,906	13,639,137
Total non-current financial assets:		9,989,906	13,639,137
Total non-current assets:		**24,089,182**	**28,423,891**
Current assets			
Inventories:			
Finished goods and goods for sale	16	39,800,766	37,344,928
Prepayments for goods		5,565,342	1,788,460
Total inventories:		**45,366,108**	**39,133,388**
Receivables			
Trade receivables	17	23,036,919	18,350,453
Receivables from related companies	33	53,955,860	83,349,753
Other receivables	18	1,729,465	2,898,960
Total receivables:		78,722,244	104,599,166
Prepaid expense and prepayments	19	520,065	325,877
Current financial assets:			
Current loans to related companies	33	3,789,718	4,090,620
Short-term deposits	20	3,615,920	1,779,081
Total current financial assets:		7,405,638	5,869,701
Cash and cash equivalents:	22	3,512,787	1,111,901
Total current assets:		**135,526,842**	**151,040,033**
TOTAL ASSETS		**159,616,024**	**179,463,924**

Statement of financial position

	Notes	31.12.2020	31.12.2019
EQUITY AND LIABILITIES		**EUR**	**EUR**
Equity:			
Share capital	23.1	9,900,780	9,784,790
Share premium	23.2	4,973,947	4,973,947
Reserves			
Other reserves		102,457	-
Retained earnings			
a) brought forward		5,693,703	7,804,365
b) for the year		9,063,103	1,357,377
Total equity:		**29,733,990**	**23,920,479**
Liabilities:			
Non-current liabilities:			
Other loans	24	15,997,368	18,530,512
Lease liabilities	14.1	11,882,883	12,661,912
Total non-current liabilities:		27,880,251	31,192,424
Current liabilities:			
Loans from credit institutions	25	30,436,630	30,793,752
Other loans	24	6,294,515	11,227,859
Lease liabilities	14.1	1,141,959	1,259,697
Loans from related companies	33	13,000,000	16,650,000
Contract liabilities		655,393	380,517
Trade payables		47,091,853	62,472,520
Payables to related companies	33	775,827	360,359
Taxes payable		1,076	-
Other liabilities	26	286,728	294,202
Accrued liabilities	28	2,233,652	900,743
Undrawn dividends of previous years		-	4,932
Derivative financial instruments	21.2	84,150	6,440
Total current liabilities:		**102,001,783**	**124,351,021**
Total liabilities:		**129,882,034**	**155,543,445**
TOTAL EQUITY AND LIABILITIES		**159,616,024**	**179,463,924**

The accompanying notes on pages 13 to 52 form an integral part of these financial statements.

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

19 April 2021

Statement of changes in equity

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2018, EUR	**9,784,790**	**4,973,947**	**-**	**44,214,287**	**58,973,024**
Dividends paid*	-	-	-	(36,409,922)	**(36,409,922)**
Profit for the year	-	-	-	1,357,377	**1,357,377**
Balance as at 31 December 2019, EUR	**9,784,790**	**4,973,947**	**-**	**9,161,742**	**23,920,479**
Balance as at 1 January 2020, EUR	**9,784,790**	**4,973,947**	**-**	**9,161,742**	**23,920,479**
Dividends paid**	115,990	-	-	(3,468,039)	**(3,352,049)**
Increase/decrease in reserves	-	-	102,457	-	**102,457**
Profit for the year	-	-	-	9,063,103	**9,063,103**
Balance as at 31 December 2020, EUR	**9,900,780**	**4,973,947**	**102,457**	**14,756,806**	**29,733,990**

The accompanying notes on pages 13 to 52 form an integral part of these financial statements.

***** In 2019, the Company's shareholders decided to distribute dividends from retained earnings amounting to EUR 36,409,922.88 (USD 40,550,554.14) (EUR 3.72 per share), of which USD 7,000,000 were paid in cash, while the remaining amount was offset against the shareholder loan.
****** In the reporting year, the Company's shareholders decided to distribute dividends from retained earnings amounting to USD 4 000 000 and EUR 115 990 (USD 4 142 331.33) (EUR 0.34 per share).

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

19 April 2021

Statement of cash flows

	Notes	2020 EUR	2019 EUR
Cash flow to / from operating activities			
Profit before tax		**9,063,103**	**1,357,377**
Adjustments for:			
Amortization and depreciation	13, 14,14.1	1,782,749	1,277,860
Changes in provisions and allowances		1,227,260	81,246
(Profit) or loss from fluctuations of currency exchange rates		(3,008,570)	(43,386)
Penalties paid	11	(8,056,117)	(1,746,744)
Interest income		10,852	1,471
Interest expense	11	(284,236)	(766,558)
Gain/ loss on financial instruments (net)	12	4,499,648	3,467,188
Gain/ loss on disposal of property, plant and equipment		77,710	490,979
Penalties paid		-	3,232
		5,312,399	**4,122,665**
Changes in working capital			
Decrease/ (increase) in trade receivables		24,248,330	(18,284,373)
(Increase)/ decrease in inventories		(6,232,720)	(9,274,678)
Increase/(decrease) in trade and other payables		894,574	(384,249)
Cash generated from operations		**24,222,583**	**(23,820,635)**
Interest received		38,050	42,154
Interest paid		(10,852)	(1,471)
Net cash flows to/ from operating activities		**24,249,781**	**(23,779,952)**
Cash flows to/ from investing activities			
Acquisition of shares in related companies	15	26,000	(21,187)
Purchase of property, plant and equipment and intangible assets		(851,413)	(680,968)
Proceeds from sale of property, plant and equipment		-	17
Loans repaid		-	18,033,819
Deposits made		(1,966,605)	(74,023)
Interest received		246,161	724,394
Dividends received		8,056,117	1,755,957
Net cash flows to/ from investing activities		**5,510,260**	**19,738,009**
Cash flows to/ from financing activities			
Proceeds from borrowings		(12,879,014)	14,483,611
Repayment of borrowings		(8,856,192)	-
Lease payments (principal)	14.1	(1,459,143)	(1,015,000)
Interest paid		(4,159,874)	(3,161,087)
Dividends paid		(4,932)	(6,224,989)
Net cash flows to/ from financing activities		**(27,359,155)**	**4,082,535**
Net cash flow for the year		**2,400,886**	**40,592**
Cash and cash equivalents at the beginning of the reporting year		1,111,901	1,071,309
Cash and cash equivalents at the end of the reporting year		**3,512,787**	**1,111,901**

The accompanying notes on pages 13 to 52 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Olga Ivanova

Chief Accountant

19 April 2021

Notes to the financial statements

1. Corporate information

The joint stock company ELKO Grupa (the Company), registered office: Riga, Toma iela 4, unified registration number 40003129564, was established on 14 May 1993. The core business activity of the Company comprises the wholesale and distribution of IT products and the management of subsidiaries.

The financial statements of the Company for the year ended 31 December 2020 were approved by a resolution of the Company's Board on 22 April 2021.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Company's financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that are measured at fair value.

The Company's functional currency is the U.S. dollar. The Company has decided on euro (EUR) as the presentation currency in the financial statements as required for filing purposes according to Latvian legislation. The financial statements cover the period 1 January 2020 through 31 December 2020.

In determining the functional currency, the Company has considered the following factors:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services;

(b) the currency that mainly influences labor, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled);

(c) the currency in which funds from financing activities (e.g. from issuing debt and equity instruments) are generated;

(d) the currency in which receipts from operating activities are usually retained.

The following additional factors were considered in determining the functional currency of a foreign operation and whether its functional currency is the same as that of the Company:

(a) whether the activities of the foreign operation are carried out as an extension of the Company, rather than being carried out with a significant degree of autonomy;

(b) whether transactions with the Company constitute a high or low proportion of the foreign operation's activities;

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the Company and are readily available for remittance to it;

(d) whether cash flows from the activities of the foreign operation are sufficient to service the existing and normally expected debt obligations without funds allocated by the Company.

These are separate financial statements of the Company. The consolidated financial statements have been prepared separately. The consolidated statements will be issued on 19 April 2021, and are available on the Company's website www.elkogroup.com

The statement of comprehensive income has been prepared according to the function of expense method.

The statement of cash flows has been prepared under the indirect method.

2.2. Foreign currency translation

As the presentation currency differs from the Company's functional currency, it translates its results and financial position into the presentation currency. Based on IAS 21 "The Effects of Changes in Foreign Exchange Rates", the results and financial position of an entity shall be translated into a different presentation currency using the following procedures:

2.2. Foreign currency translation (cont'd)

(a) assets and liabilities for each statement of financial position presented (including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
(b) income and expenses for each statement presenting profit or loss and other comprehensive income (including comparatives) shall be translated at exchange rates at the dates of the transactions; and
(c) all resulting exchange differences shall be recognized in other comprehensive income.

The currency exchange rate used for accounting purposes is the euro foreign exchange reference rate published by the European Central Bank; if a specific foreign currency has no such euro foreign exchange reference rate published by the European Central Bank, the Company applies the relevant market euro exchange rates published in periodicals or on websites of financial data providers recognized by the global financial market.

Transactions in foreign currencies are translated into the euro at the exchange rate published by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the exchange rate published by the European Central Bank at the last day of the reporting year. Currency exchange gains or losses arising on settlements of transactions in foreign currencies and the translation of monetary assets and liabilities denominated in foreign currencies are reported in the statement of profit or loss for the respective period.

Non-monetary assets and liabilities that are initially measured at cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary assets and liabilities measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items the increase of decrease in the fair value of which is recognized in other comprehensive income or through profit or loss respectively).

	31.12.2020 EUR	**31.12.2019 EUR**
1 EUR	1.00000	1.00000
1 USD	1.22710	1.12340
1 CHF	1.08020	1.08540
1 RUB	91.46710	69.95630
1 RON	4.86830	4.78300
1 SEK	10.03430	10.44680
1000 KZT	516.1300	426.8500

2.3. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duties. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from contracts with customers
The Company is in the business of providing IT products and solutions. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in all of its revenue arrangements.
The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 4.

Sale of goods
Revenue from the sale of goods is recognized when the control of the goods has passed to the buyer, usually on delivery of the goods to end customer. The goods on which the control has not been passed to client are recognized as consignment stock and revenue is recognized only when the respective goods are sold to the end customers.

Sale of IT products
Revenue from sale of IT products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The normal credit term is 30 to 90 days upon delivery.
The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties. In determining the transaction price for the sale of equipment, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

(i) Variable consideration
If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of IT products provide customers with a right of return (only in case of, price protection and volume rebates. However, those right as only granted if and only in the amount of received rights from supplier. Therefore, the rights of return and volume rebates do not give rise to variable consideration.

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

Warranty obligations
The Company typically provides warranties for general repairs of defects that existed at the time of sale, mostly only in amount and for the term provided by vendor.
In the case, when warranty is provided outside the warranty provided by supplier, these assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in section w) Provisions.

Contract balances
Trade receivables
A receivable represents the Company'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 the accounting policies for financial assets in Section 2.5. The Company disclosed trade and other receivables and prepayments under the trade receivables caption (Note 17).

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

Rendering of services
The Company concluded that revenue for transportation and marketing services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Company. The fact that another entity would not need to re-perform the services that the Company has provided to date demonstrates that the customer simultaneously receives and consumes the benefits at the time they are supplied.

Interest income and expense
For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the statement of comprehensive income as finance income.

Dividends
Revenue is recognized when the Company's right to receive the payment is established, which is generally when the shareholders approve the dividends.

Other income
Income from penalties charged to clients is recognized at the moment of receipt. Penalties represent mostly customer charges for late payments.

2.4. Taxes

Income taxes
Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Starting from 1 January 2018, additional income taxes that arise from the distribution of dividends have been recognized at the same time as the liability to pay the related dividend is recognized No provision is recognized for income tax payable on a dividend distribution before dividends are declared but information on the contingent liability is disclosed in the notes to the consolidated financial statements.

Value added tax
Revenues, expenses and assets are recognized net of the amount of value added tax except:
- When value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.5. Financial instruments – initial recognition and subsequent measurement

2.5.1. Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized 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 Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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 receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.3 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized 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 Company'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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

The Company does not hold financial assets at fair value through OCI, therefore this category is not described further.

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortized 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 amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.
The Company's financial assets at amortized cost includes trade receivables.

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, including separated embedded 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 amortized 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 recognized in the statement of profit or loss. This category includes derivative instruments.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
  Or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 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 asset is recognized to the extent of the Company's continuing involvement in the asset.
In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 Company could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:
- Significant accounting judgments, estimates and assumptions (Note 4)
- Trade receivables (Note 17)

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company 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.
Based on the historical experience the Company considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.5.2. Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

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 Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.
Gains or losses on liabilities held for trading are recognized 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 Company has designated derivative financial instruments as financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.
Amortized 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 amortization is included as finance costs in the statement of profit or loss.
This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 25.

Derecognition
A financial liability is derecognized 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 a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.6. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Amortization is calculated on a straight-line basis over the estimated useful life of an asset to write down its cost to the estimated residual value at the end of the useful life, applying the following amortization rates fixed by the management:

Licenses	20% per annum

2.7. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. The cost includes expenditure that is directly attributable to the acquisition of assets.

Depreciation is calculated on a straight-line basis over the estimated useful life of an asset to write down its cost to the estimated residual value at the end of the useful life, applying the following depreciation rates fixed by the management:

	% per annum
Vehicles	25
Communication devices	50
Computers and data storage devices	50
Other plant and equipment	25
Leased assets	20 – 30

Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Subsequent costs are added to the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be measured reliably. These costs are written off over the remaining useful life of the relevant asset. Current repair and maintenance costs are charged directly to the statement of comprehensive income in the period when incurred.

Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item and is included in the statement of profit or loss in the year the item is derecognized.

2.8. Leases

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

Company as a lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company has applied modified retrospective approach and recognized right-of-use assets starting from 1 January 2019. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:
• Building and warehouse premises – 5-14 years
If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Otherwise, depreciation is calculated using the contract term.
The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.12 Impairment of non-financial assets.

Lease liabilities

As at 1 January 2019, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.
Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

When calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.
The Company's lease liabilities are included in Lease liabilities (see Note 14.1).

Short-term leases and leases of low-value assets

The Company applies the short-term and low value lease recognition exemption to its short-term and low value leases of vehicles and some premises (i.e., those leases whose lease term is 12 months or less starting with 1 January 2020 and do not contain a purchase option). Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2.9. Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated at cost less impairment losses.

When there is objective evidence that investments in subsidiaries are impaired, the impairment loss is measured as the difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of an investment's fair value less costs to sell and its value in use. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the impairment since the last impairment loss was recognized.

2.10. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In 2020 and 2019, the Company had no borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

2.11. Inventories

Inventories are recognized when the supplier has issued an invoice and relevant liabilities towards the supplier have been recognized. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. When the net realizable value of inventories is lower than their cost, impairment allowances are established to write down inventories to their net realizable value.

2.12. Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted prices of the shares of listed subsidiaries or other available fair value indicators.

2.13. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. The statement of cash flows has been prepared under the indirect method with corrections made in order to reconcile earnings from operating activities with cash flow from operating activities, investing activities and financial activities.

2.14. Share capital and dividend distribution

Ordinary shares are classified as equity instruments. The Company has issued only ordinary shares and personal non voting shares.

2.15. Related parties

If a person has ability to control other person or has impact on decisions regarding finances or operating activities, parties are considered related parties. Related parties are defined as subsidiaries and associates of the Company as well as shareholders that have the ability to control the Company or exercise significant influence over the Company in making financial and operating decisions, members of the key management personnel of the Company or its parent company, and close members of the families of any individual referred to previously, and entities over which these persons exercise significant influence or control.

2.16. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

2.17. Warranties

The Company's vendors generally warrant the products distributed by the Company and allow returning defective products, including those that have been returned to the Company by its customers. Based on the past experience and the contractual agreements with vendors, the Company assesses that the receipt of the reimbursement from vendors is virtually certain. The Company does not independently warrant the products it distributes.

2.18. Vendor programs

The Company receives funds from vendors in a form of credit notes for price protection, product rebates, marketing and other product promotions as well as investments in infrastructure, which, depending on the type of the program in question are booked either as decrease of the cost value of the inventory, recognized directly in the statement of profit or loss as decrease of cost of sales or recognized as other revenue. Some of these programs may extend over one or more reporting periods. Rebates or other vendor incentives are recognized as earned based on sales of respective products or as services are provided in accordance with the terms of the related program.

2.19. Off-balance sheet commitments and contingencies

In the ordinary course of business, the Company is involved in off-balance sheet financial instruments comprising financial guarantees. Such financial instruments do not involve outflow of the Company's economic benefits; thus they are not recorded as liabilities. The methodology for provisioning against off-balance sheet financial commitments and contingent liabilities is consistent with that described in the section "Provisions" below. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are only disclosed in the notes to the financial statements where an inflow of resources embodying economic benefits is probable and are never recognized in the financial statements.

2.20. Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2020:

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity 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. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.

B) Standards issued but not yet effective and not early adopted

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements as the Group does not have any investments in associates or joint ventures.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the COVID-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These amendments have not yet been endorsed by the EU. The management has not assessed this amendment yet.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

  The amendments have not yet been endorsed by the EU. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.

- **IFRS 16 Leases– COVID-19-Related Rent Concessions (Amendment)**
  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

  In February 2021 the IASB issued a proposal to extend the relief period by another year, i.e. to apply the practical expedient on rent concessions to a change in lease payments originally due on or before 30 June 2022 from 30 June 2021. The amendment is effective for annual periods beginning on or after 1 April 2021 with earlier application permitted. The amendments have not yet been endorsed by the EU. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.

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

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments):**
  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments have not yet been endorsed by the EU. The management has not assessed this amendment yet.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments):**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments have not yet been endorsed by the EU. The management has not assessed this amendment yet.

4. Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgments and estimates, which have the most significant effect on the amounts recognized in the financial statements:

4.1 Currency

The management has stated that the Company's functional currency is the U.S. dollar as financing activities and the purchase of goods from vendors are in U.S. dollars.

4.2 Vendor programs

The Company has to estimate the amount of credit notes due from vendors at the date of the statement of financial position based on the available information and past experience. In several vendor programs the size of the rebate is dependent on the performance of other distributors and is known exclusively by the vendor.

An estimate of a receivable from vendors in relation to the vendors programs as at 31 December 2020 amounted to EUR 233 thousand (2019: EUR 8,715 thousand) based on the individual vendor agreements.

4.3 Impairment of inventories

The Company is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of most of the Company's vendors to protect distributors from the loss in value of inventory due to technological change or the vendors' price reductions. In 2020, no impairment of inventory was recognized.

4.4 Warranty provisions

The Company's vendors generally warrant the products distributed by the Company and allow returning defective products, including those that have been returned to the Company by its customers. Based on the past experience and the contractual agreements with vendors, the Company assesses that receipt of the reimbursement from vendors is virtually certain. The Company does not independently warrant the products it distributes. Historically the Company has not incurred any significant service warranty costs.

4.5 Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of transportation and marketing services
The Company concluded that revenue for transportation and marketing services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Company. The fact that another entity would not need to re-perform the services that the Company has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Company's performance as it performs.

The Company determined the input method to be the best for measuring progress of the transportation and marketing services because there is a direct relationship between the Company's effort (i.e., labor hours incurred) and the transfer of service to the customer. The Company recognizes revenue on the basis of the labor hours and third party expense expended on the total expected labor hours and third party expense to complete the service.

Principal versus agent consideration
Considering credit risk and the consideration under the contract, the Company is exposed to significant risks and rewards associated with the sale of IT products to its customers and thus accounts for the contracts as a principal.

4.6 Allowances for expected credit losses of trade receivables and contract assets

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).
The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in IT retail sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.
The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.
The debtor balances 180 and more days overdue are considered to be default. As most of the debtors are insured, default rate is calculated taking into consideration insurance limits and own risk of 10%.

4.7 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted prices of the shares of listed subsidiaries or other available fair value indicators.

As at 31 December 2018, the Company had assessed all its non-financial assets and concluded that due to the sharp decrease in the business volume of Lenovo and uncertain future plans of the company, the investment in the subsidiary ELKO Mobile ltd. of EUR 799,682 is not recoverable. As a result, a 100% impairment allowance was recognized (see Note 15).

The Company assessed all its non-financial assets as at 31 December 2020 and concluded that no additional impairment allowances were required.

4.8 Fair value of financial instruments

The Company measures financial instruments such as derivatives at fair value at each balance sheet date. Fair-value related disclosures for financial instruments are summarized in the note 33.
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 by the Company.

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 best economic interest.

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

All assets and liabilities for which fair value is measured or disclosed in the 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 recognized at fair value in the financial statements on a recurring basis, the Company determines whether any transfers have occurred between the hierarchy levels 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.

4.9 Control over related companies

Control is achieved, when the Company has:
- existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee’s returns);
- 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.

Based on criteria above the Company has assessed that the it has control over Swiss spol s.r.o. and ARAŠID spol. s r.o (26% and 51% respectively) through controlling interest owned by its subsidiary – WESTech s.r.

4.10 Determining the lease term of contracts with renewal and termination options – Company as a lessee

The Company 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 Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company 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 or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).
The Company has not included the renewal period as part of the lease term for leases of the office building and warehouse premises as the agreements cover quite a long term and their renewal period would relate to the time in which the Company’s activities cannot be reasonably forecast.

4.11 Sub-lease classification

The Company has concluded sub-lease agreements for its office building. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

4.12 Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

5. Revenue from contracts with customers

	2020	2019
	EUR	EUR
Wholesale of computer components	599,878,749	473,523,262
Other sales income	305,681	269,636
	600,184,430	**473,792,898**

Results for the year 2020*:

	Latvia	Other countries*	Total
	EUR	EUR	EUR
Wholesale of computer components	65,542,262	623,466,013	689,008,275
Other sales income	-	305,681	305,681
Discounts granted	(1,085,690)	(88,043,836)	(89,129,526)
Net turnover	**64,456,572**	**535,727,858**	**600,184,430**

* Sales to a particular country are attributed depending on the buyer's country of residence.

Results for the year 2019*:

	Latvia	Other countries*	Total
	EUR	EUR	EUR
Wholesale of computer components	47,458,461	488,099,747	535,558,208
Other sales income	-	269,636	269,636
Discounts granted	(886,667)	(61,148,279)	(62,034,946)
Net turnover	**46,571,794**	**427,221,104**	**473,792,898**

* Sales to a particular country are attributed depending on the buyer's country of residence.

The main customers of the Company are related parties whose mutual transactions comprise 59% (in 2019: 64%) of the total net turnover. Company's net turnover is mostly generated by transactions with the CIS and Central and Eastern European customers (see Note 35). The Company does not have a single customer in the Baltic region with transactions comprising 10% of its turnover generated in the Baltic.

There are no performance obligations that would not have been fulfilled by 31 December 2020.

6. Cost of sales

	2020	2019
	EUR	EUR
Acquisition cost of goods sold	693,919,988	546,223,878
Delivery of purchased goods	4,292,722	2,505,422
Non-refundable taxes paid on the acquisition of goods	768,993	510,599
Discounts received	(113,062,790)	(83,789,578)
	585,918,913	**465,450,321**

7. Distribution costs

	2020	2019
	EUR	EUR
Delivery of sold goods	1,307,414	958,127
Warehouse expenses*	344,179	414,430
Distribution of goods	1,501,603	1,274,352
Advertising	225,907	224,554
Loss on warranty replacement	22,124	20,632
Other distribution costs	31,711	3,777
	3,432,938	**2,895,872**

* In 2019, IFRS 16 was adopted whereby causing changes in the lease accounting principles (see Note 14.1).

8. Administrative expense

	2020	2019
	EUR	EUR
Wages and salaries	6,697,761	6,332,741
Office maintenance*	420,159	290,311
Statutory social insurance contributions	1,643,800	1,529,092
Professional fees	521,549	681,741
Depreciation and amortization (Notes 14 and 14.1)	1,782,757	1,277,748
Recruitment and training expense	65,889	182,030
Bank charges	299,202	130,191
Transport expenses	232,802	299,709
Business trips	57,344	244,257
Communications expense	174,482	193,162
Computer maintenance expense	126,787	122,249
Write-offs of doubtful and bad receivables	65,008	154,246
Receivables insurance	208,222	179,372
Other administrative expense	202,126	371,364
Other staff costs	252,683	108,440
	12,750,571	**12,096,653**

*In 2019, IFRS 16 was introduced leading to a change in lease accounting (see Note 14.1).

9. Other operating income

	2020 EUR	2019 EUR
Income from services provided*	6,374,898	3,055,417
Income from management services**	5,780,638	5,376,428
Currency exchange gain	-	467,172
Other income	1,562	32,637
	12,157,098	**8,931,654**

** The Company issues invoices to the subsidiaries for the purchase of goods and administrative services.
* Including EUR 1,808,186 income from marketing activities (2019: EUR 1,974,544).

10. Other operating expense

	2020 EUR	2019 EUR
Advertising contracts with subsidiaries	85,579	119,743
Donations	6,500	6,500
Penalties	10,852	1,471
Corporate income tax	15,568	15,905
Other expense	76,027	66,912
Tax paid abroad	22,197	66,003
Currency exchange loss *	5,112,640	-
	5,329,363	**276,534**

* During 2020, significant fluctuations in the EUR / USD exchange rate show losses from revaluation of business partners' balances.

11. Financial income

	2020 EUR	2019 EUR
Interest income from intra-group current loans	246,161	724,394
Dividends from the subsidiary ELKO Marketing Ltd	6,526,117	-
Dividends from the subsidiary WESTech Spol s.r.o.	1,530,000	1,020,000
Dividends from the subsidiary ELKO Trading Malta Limited LLC	312,655	726,743
Late payment interest	38,050	42,155
Interest accrued on bank account balances	25	10
	8,653,008	**2,513,302**

12. Financial expense

	2020 EUR	2019 EUR
Interest on loans from credit institutions	2,545,659	2,305,560
Interest on loans from related companies	399,021	549,446
Interest on lease liabilities	339,749	306,091
Interest on loans from shareholders	1,215,219	-
	4,499,648	**3,161,097**

13. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Total
Cost		
As at 1 January 2019	313,551	313,551
Disposals	230,564	230,564
As at 31 December 2019	544,115	544,115
Amortization		
As at 1 January 2019	308,730	308,730
Charge for the year	40,946	40,946
As at 31 December 2019	349,676	349,676
Net carrying amount as at 31.12.2019	194,439	194,439
Cost		
As at 1 January 2020	544,115	544,115
Disposals	198,000	198,000
As at 31 December 2020	742,115	742,115
Amortization		
As at 1 January 2020	349,676	349,676
Charge for the year	60,900	60,900
As at 31 December 2020	410,576	410,576
Net carrying amount as at 31.12.2020	331,539	331,539
Net carrying amount as at 31.12.2019	194,439	194,439

The cost of fully amortized intangible assets at 31 December 2020 was EUR 305 thousand (31 December 2019: EUR 305 thousand).

14. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other fixtures and fittings, tools and equipment	Communications and IT equipment	Prepayments for property, plant and equipment	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Cost						
As at 1 January 2019	108,401	99,642	218,397	2,161,940	259,682	2,848,062
Additions	122,619	-	127,143	290,374	157,464	697,600
Disposals	-	-	(32,892)	(51,435)	(247,196)	(331,523)
Write-offs	-	-	(658)	(7,258)	-	(7,916)
As at 31 December 2019	231,020	99,642	311,990	2,393,621	169,950	3,206,223
Depreciation						
As at 1 January 2019	41,593	93,910	169,304	1,793,699	-	2,098,506
Charge for the year	25,053	5,732	26,229	342,093	-	399,107
Disposals	-	-	(32,892)	(51,435)	-	(84,327)
Write-offs	-	-	(625)	(4,042)	-	(4,667)
As at 31 December 2019	66,646	99,642	162,016	2,080,315	-	2,408,619
Net carrying amount as at 31 December 2019	164,374	-	149,974	313,306	169,950	797,604
Cost						
As at 1 January 2020	231,020	99,642	311,990	2,393,621	169,950	3,206,223
Additions	38,874	26,243	35,462	684,751	261,899	1,047,229
Disposals	-	-	(2,418)	(24,180)	(367,950)	(394,548)
Write-offs	-	-	-	(5,974)	-	(5,974)
As at 31 December 2020	269,894	125,885	345,034	3,048,218	63,899	3,852,930
Depreciation						
As at 1 January 2020	66,646	99,642	162,016	2,080,315	-	2,408,619
Charge for the year	49,337	4,374	48,246	369,402	-	471,359
Disposals	-	-	(2,418)	(24,180)	-	(26,598)
Write-offs	-	-	-	(3,339)	-	(3,339)
As at 31 December 2020	115,983	104,016	207,844	2,422,198	-	2,850,041
Net carrying amount as at 31 December 2020	153,911	21,869	137,190	626,020	63,899	1,002,889

The cost of fully amortized intangible assets at 31 December 2020 was EUR 1,979 thousand (31 December 2019: EUR 1,993 thousand). All the Company's property, plant and equipment are located in Latvia.

14.1 Leases

Company as a lessee
The Company has lease contracts for the office building and warehouse space with lease terms of 14 and 5 years respectively. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Concerning the warehouse premises, the Company is restricted from assigning and subleasing the leased asset, at the same time, sub-lease of the office building is permitted and executed.
Both contracts include extension and termination options, which were not taken into account calculating lease terms, as the extension option falls outside the time period for which the Company is able to reasonably forecast its operations.
The Company also has certain leases of vehicles with lease terms of 12 months or less and with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Premises	**Total**
	EUR	**EUR**
As at 1 January 2020	**13,792,711**	**13,792,711**
Additions	222,627	**222,627**
Depreciation charge	(1,250,490)	**(1,250,490)**
As at 31 December 2020	**12,764,848**	**12,764,848**
As at 1 January 2019	**12,567,101**	**12,567,101**
Additions	2,063,417	**2,063,417**
Depreciation Charge	(837,807)	**(837,807)**
As at 31 December 2019	**13,792,711**	**13,792,711**

Set out below are the carrying amounts of lease liabilities (included under other loans) and the movements during the period:

	2020	**2019**
	EUR	**EUR**
As at 1 January 2020	**13,921,609**	**12,567,101**
Additions	222,627	2,063,417
Accretion of interest	339,749	306,091
Payments	(1,459,143)	(1,015,000)
As at 31 December 2020	**13,024,842**	**13,921,609**

Incremental borrowing rate used in lease liability calculation is 2.5%

Below disclosed the maturity analysis of lease liabilities:

	31.12.2020			**31.12.2019**		
	Non-current portion	**Current portion**	**Total**	**Non-current portion**	**Current portion**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Accrued lease liabilities **	11,882,883	1,141,959	**13,024,842**	12,661,912	1,259,697	**13,921,609**
	11,882,883	1,141,959	**13,024,842**	12,661,912	1,259,697	**13,921,609**

The following are the amounts recognized in profit or loss:

	2020	**2019**
	EUR	**EUR**
Depreciation expense of right-of-use assets	1,250,490	837,807
Interest expense on lease liabilities	339,749	306,091
Expense relating to short-term and low value leases (included in cost of sales)	262,928	196,581
Total amount recognized in profit or loss	**1,853,167**	**1,340,479**

The Company considers as short-term those lease agreements that provide the lessor the option to terminate the agreement within 1 year without substantial penalties. The Company does not have any plans not to extend and terminate any lease agreement.

14.1 Leases (cont'd)

Company as a lessor
The Company has concluded several sub-lease agreements on its office building with different terms of the lease from 1 to 14 years. Rental income recognized by the Company during the year was EUR 277,919 (2019: EUR 315,000).

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2020	2019
Maturing:	EUR '000	EUR '000
Within one year	224	267
After one year but not more than five years	723	974
More than five years	805	922
	1 752	**2 163**

15. Investments in related companies

Information about investments in subsidiaries

Company	Carrying amount of equity interest in subsidiaries		Equity interest in subsidiaries	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR	EUR	%	%
ELKO Eesti AS	100,164	100,164	100	100
WESTech Spol s.r.o.	9,361	9,361	51	51
ELKOTech Romania SRL*****	3,759,099	3,759,099	100	100
ELKOTEX d.o.o.	80,933	80,933	51	51
ELKO Lietuva UAB	2,501	2,501	100	100
ELKO Trading Switzerland AG	60,757	60,757	100	100
ELKO Marketing Ltd	2,436	2,436	100	100
Elko Trading Malta Limited LLC	253	253	100	100
ELKO Polska Sp.Z.o.o.	1,166	1,166	100	100
ELKO RUS LTD	35,823	35,823	100	100
AST Balts SIA*	-	3,600,000	-	100
TD Absolut LLC	1,709,500	1,709,500	100	100
Gandalf Distribution AB	4,227,889	4,227,889	100	100
ELKO Ukraina LLC**	24	24	0.1	0.1
ELKO Mobile Ltd ***	799,682	799,682	51	51
ELKO Mobile Ltd ***	(799,682)	(799,682)	51	51
ELCO LLP ****	-	49,231	-	100
	9,989,906	**13,639,137**		

* On 25 March 2020, a reorganization through a merger was registered with the Commercial Register, namely, AS ELKO Grupa acquiring SIA AST BALTS.

** Elko Grupa AS owns 0.01% of the shares in ELKO Ukraine LLC, the other 99.99% are owned by the subsidiary ELKO Marketing Ltd. In addition, management has performed a recovery assessment and concluded that the investment is fully recoverable. The valuation was performed on the basis of 5 years of discounted cash flow, using the weighted average cost of capital of 7% as the discount rate.
*** As at 31 December 2018, an allowance for the investment in ELKO Mobile Ltd of EUR 799,682 was established.
**** On 09 September 2019 name was changed from ELKO Kazakhstan LLP to ELCO LLP and on 31 January 2020, ELCO LLP was sold.
***** Management has performed a recovery assessment and concluded that the investment is fully recoverable. The valuation was performed on the basis of 5 years of discounted cash flow, using the weighted average cost of capital of 7% as the discount rate.

15. Investments in related companies (cont'd)

Information about subsidiaries

Company	Address	Equity 31.12.2020 EUR	31.12.2019 EUR
ELKO Trading Switzerland AG	c/o Domanda Verwaltungs GmbH, Grafenaustrasse 5, 6302 Zug, Switzerland	9,500,543	9,175,167
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	252,917	8,810,455
ELKO Eesti OU	Pärnu mnt 141, Kesklinna district, Tallinn city, Harju county, 11314, Estonia	90,383	64,194
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	73,908	52,953
ELCO LLP	Kazakhstan, 050000 Almaty, Medeuskiy district, Akhmedyarova street 25A, 5th floor	(649,218)	(777,979)
ELKOTech Romania SRL	18 Copilului Street, 1st floor, district 1, Bucharest, Romania	2,545,750	2,549,538
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	(1,041,057)	(1,396,063)
ELKO RUS LTD	143441, Moscow, Krasnogorsky region, Putilkovo, 69 km MKAD, office 506 , Russian Federation	18,621,263	12,822,353
AST Balts SIA	Toma 4, Riga, Latvia, LV-1003	-	3,709,326
Gandalf Distribution AB	Kyrkogatan 3, 222 22 Lund, Sweden	5,881,915	3,795,220
ELKOTEX d.o.o.	ulica Magistrova 1, 1000 Ljubljana, Slovenia	3,164,327	2,389,129
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	26,971,672	22,324,046
ELKO Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	(6,841,305)	(7,472,926)
ELKO Polska Sp.Z.o.o.	ul. Wrocławska 7, miesjc. Bielany Wrocławska 7, kod-55-040, poczta Bielany Wrocławska, Poland	59,494	24,671
Elko Trading Malta Limited LLC	185D Old Bakery Street, Valleta VTL 1455, Malta	6,682,016	1,113,876
TD Absolut LLC	Warshaw highway, house 138, 117519 Moscow, Russian Federation	19,289,009	9,101,584

Profit/ (loss) for the year

Company	Address	2020 EUR	2019 EUR
ELKO Trading Switzerland AG	c/o Domanda Verwaltungs GmbH, Grafenaustrasse 5, 6302 Zug, Switzerland	1,183,436	1,247,421
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	(1,644,433)	8,554,443
ELKO Eesti OU	Pärnu mnt 141, Kesklinna district, Tallinn city, Harju county, 11314, Estonia	26,189	22,872
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	33,996	29,151
ELCO LLP	Kazakhstan, 050000 Almaty, Medeuskiy district, Akhmedyarova street 25A, 5th floor	(6,360)	(271,318)
ELKOTech Romania SRL	18 Copilului Street, 1st floor, district 1, Bucharest, Romania	81,832	(205,924)
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	23,404	3,428,090
ELKO RUS LTD	143441, Moscow, Krasnogorsky region, Putilkovo, 69 km MKAD, office 506 , Russian Federation	9,756,653	9,384,606
AST Balts SIA	Toma 4, Riga, Latvia, LV-1003	-	(3,641)
Gandalf Distribution AB*	Kyrkogatan 3, 222 22 Lund, Sweden	1,847,124	581,936
ELKOTEX d.o.o.	ulica Magistrova 1, 1000 Ljubljana, Slovenia	928,905	236,317
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	7,647,626	5,678,063
ELKO Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	105	89,595
ELKO Polska Sp.Z.o.o.	ul. Wrocławska 7, miesjc. Bielany Wrocławska 7, kod-55-040, poczta Bielany Wrocławska, Poland	37,413	14,802
Elko Trading Malta Limited** LLC	185D Old Bakery Street, Valleta VTL 1455, Malta	6,087,589	1,084,899
TD Absolut LLC	Warshaw highway, house 138, 117519 Moscow, Russian Federation	2,436,657	4,112,216

Equities of subsidiaries are translated into the euro at the exchange rate published by the European Central Bank at the last day of the reporting year. Financial results of subsidiaries are reported in the euro, applying the average exchange rate set by the European Central Bank for the reporting year.
Financial results and equities of subsidiaries are presented corresponding to the equity interest held by AS ELKO Grupa

16. Finished goods and goods for sale

	31.12.2020 EUR	31.12.2019 EUR
Goods at warehouses	20,374,160	22,664,319
Goods in transit	19,426,606	14,680,609
	39,800,766	**37,344,928**

All inventories of AS ELKO Grupa, except for the goods to which legal title has not yet passed from vendors to the Company, and goods in transit have been pledged for the benefit of lenders (see Note 27).
Company has assessed NRV of goods and concluded that no impairment allowances for goods are required.

17. Trade receivables

	31.12.2020 EUR	31.12.2019 EUR
Trade receivables, gross	23,229,233	18,625,948
ECL allowances	(192,314)	(275,495)
	23,036,919	**18,350,453**

Trade receivables are non-interest bearing and are generally due in 30 - 90 days.

Balances of trade receivables subject to credit risk as at 31 December 2020 according to the provision matrix:

Contract assets	**Current**	**<30 days**	**30–60 days**	**61–90 days**	**91-120 days**	**121-150 days**	**151-180 days**	**>181 days**	**Total**
EUR									
Expected credit loss rate	0.1%	1.8%	17%	27%	35%	0%	55%	55%	0.8%
Estimated total gross carrying amount at default	22,730, 042	196, 061	28,196	4,932	972	-	2,687	266, 339	23,229,233
Expected credit loss	33,149	3,494	4,884	1,333	336	-	1,489	147,625	192,314

31 December 2019	**Trade receivables**								
Contract assets	**Current**	**<30 days**	**30–60 days**	**61–90 days**	**91-120 days**	**121-150 days**	**151-180 days**	**>181 days**	**Total**
EUR									
Expected credit loss rate	0.10%	1.20%	15%	26%	34%	41%	44%	44%	1.50%
Estimated total gross carrying amount at default	17,204,400	834,585	44,281	11,051	10,628	23,025	153,258	344,720	18,625,948
Expected credit loss	21,863	9,723	6,566	2,846	3,587	9,389	68,176	153,345	275,495

18. Other receivables

	31.12.2020	31.12.2019
	EUR	EUR
VAT overpaid in the Netherlands (see Note 27)	1,399,846	2,331,618
VAT overpaid in Latvia (see Note 27)	113,712	100,066
Overpayment of statutory social insurance contributions (see Note 27)	2,552	618
Overpayment of corporate income tax (see Note 27)	75,633	149,048
Overpayment of personal income tax (see Note 27)	978	1,106
Other receivables	136,744	316,504
	1,729,465	**2,898,960**

19. Prepaid expense and prepayments

	31.12.2020	31.12.2019
	EUR	EUR
Prepayments	160,033	84,635
Other expenses	360,032	241,242
	520,065	**325,877**

20. Short-term deposits

	31.12.2020	31.12.2019
	EUR	EUR
Short-term deposits	3,615,920	1,779,081
	3,615,920	**1,779,081**

On 7 October 2016, AS Luminor Bank (former AS Nordea Bank AB), on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities of the Company's subsidiary Elko Ukraine LLC towards PJSC Credit Agricole Bank amounting to USD 3,000,000 (EUR 2,670,465). The guarantee was extended until 5 November 2020. Upon execution of the agreement, AS ELKO Grupa placed a security deposit of USD 1,500,000 (EUR 1,335,232) for the above mentioned bank guarantee. The said deposit was refunded on 31 July 2020.

On 11 September 2020, issued a guarantee to Lanner Electronics INC. Upon execution of the agreement, AS ELKO Grupa placed a security deposit of USD 750 000 for the above mentioned bank guarantee.

On 10 December 2018, AS Luminor Bank, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities under the lease agreement signed with Corum Origin amounting to EUR 761,250. Upon execution of the agreement, AS ELKO Grupa placed a security deposit of EUR 380,625 for the above mentioned bank guarantee.

On 12 March 2019, AS Luminor Bank, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities under the lease agreement with P14 SIA. When entering into the agreement, AS ELKO Grupa provided a security deposit of EUR 63 224.

On 21 April 2020, the Company and OP Corporate Bank plc entered into Financial Pledge Agreement NO 598001-91936569/2 for a guarantee of USD 200,000 according to Pledge Agreement No 598001-91936569; the guarantee is valid until 7 May 2021. On 13 August 2020, the amendments to the agreement were signed extending the guarantee amount to USD 500,000 and setting financial collateral of USD 125,000 (as at 31 December 2020: EUR 101 866.19). On 10 December 2020, the guarantee was extended until 1 May 2022.

On 29 September 2020, OP Corporate Bank plc, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities towards ROBOROCK (HK) LIMITED amounting to USD 2,700,000. AS ELKO Grupa provided financial collateral of USD 384,000.

On 16 December 2020, AS Citadele banka issued a guarantee securing the funding of ROBOROCK (HK) LIMITED, a supplier of AS ELKO Grupa. AS ELKO Grupa provided financial collateral of USD 2,633,449.

21. Derivative financial instruments

21.1. Financial assets

	31.12.2020 EUR	31.12.2019 EUR
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges	-	-
- foreign exchange forwards		
Total financial instruments at fair value through profit or loss	-	-
Total financial assets	**-**	**-**

In 2020, a foreign exchange forward contract for the sale of EUR 19.78 million against USD (2019: sale of EUR 0.5 million) with an average weighted maturity of 18 days. The fair value of foreign exchange forwards is calculated at market rates (see Note 35).

21.2. Financial liabilities

	31.12.2020 EUR	31.12.2019 EUR
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges - foreign exchange forwards	(84,150)	(6,440)
Total financial instruments at fair value through profit or loss	(84,150)	(6,440)
Total financial liabilities	**(84,150)**	**(6,440)**

In 2020, derivatives were held for trading.

When determining the fair value, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. For the fair value of derivative financial instruments, see also Note 35.

22. Cash and cash equivalents

	31.12.2020	31.12.2019
	EUR	EUR
Cash at bank	3,512,787	1,111,901
	3,512,787	**1,111,901**

23. Share capital and reserves

23.1. Share capital

As at 31 December 2020, the Company's registered and paid-in share capital was EUR 9,900,780 (31 December 2019: EUR 9,784,790) and consisted of 9,784,790 dematerialized ordinary registered shares and 115,990 dematerialized employee registered shares (31 December 2019: 9,784,790 dematerialized ordinary registered shares). The par value per share is EUR 1.00 (31 December 2019: EUR 1.00).

23.2. Share premium

In 2005, the share capital was increased by attracting new shareholders. As a result of the share capital increase and attraction of new shareholders, share premium of EUR 4,973,947 was recognized.

24. Other loans

	31.12.2020			31.12.2019		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Loan from shareholders*	15,997,368	6,294.515	22,291,883	18,530,512	11,227,859	**29,758,371**
	15,997,368	**6,294,515**	**22,291,883**	**18,530,512**	**11,227,859**	**29,758,371**

* On 23 December 2019, the Company received a loan from its shareholders for a total amount of USD 33,430,554.15. The loan bears interest at 5% and matures on 31 December 2023. On 15 September 2020, new loan agreements were signed with the shareholders for USD 4,000,000 under the same conditions.

25. Loans from credit institutions

	31.12.2020	31.12.2019
	EUR	EUR
Credit line from Alfa Bank*	4,727,713	-
Credit line from AS Luminor Bank**	1,341,813	4,364,913
Credit line from OP Corporate Bank plz Latvia branch ***	-	16,544,307
Credit line from AS Deutsche Bank New York ****	16,161,734	9,876,883
Swedbank Līzings SIA, trade receivable factoring *****	6,024,856	-
Credit card balance	5,940	7,649
OP Corporate Bank plz Latvia branch, trade payable factoring******	2,174,574	-
	30,436,630	**30,793,752**

* On 30 March 2020, AS ELKO Grupa signed a credit line agreement with AS ALFA BANK. According to the agreement, the base interest rate is 4.2% per annum. The maximum credit line limit was set at USD 15,000,000. The credit line matures on 1 April 2021.

** On 10 August 2020, AS ELKO Grupa signed an agreement amending the overdraft agreement with AS Luminor Bank, dated 5 November 2015. According to the amendments, the base interest rate remained overnight LIBOR USD/EURIBOR EUR and the margin remained at 3% per annum. The maximum overdraft limit was set at USD 24,788,538 (2019: USD 30,498,963). The overdraft matures on 31 July 2021.

*** On 17 July 2020, AS ELKO Grupa signed an agreement amending the overdraft agreement with OP Corporate Bank Latvia branch, dated 29 July 2016. According to the amendments, the base interest rate remained at 3-month LIBOR USD and the margin - at 3.55% per annum (2019: 3.45%). The maximum limit remained at USD 20,000,000 (2019: USD 20,000,000). The overdraft matures on 31 July 2021.

**** On 21 December 2015, AS ELKO Grupa signed an agreement with AG Deutsche Bank New York branch on financing the trade payables of AS ELKO Grupa. As at 31 December 2020, the total trade payable financing limit was USD 20,000,000. The agreement is valid until 17 September 2021. The base interest rate is 3-month LIBOR USD, while the margin is 3.75% per annum.

*****On 10 March 2020, AS ELKO Grupa signed an agreement with SIA Swedbank Līzings on financing the trade receivables of AS ELKO Grupa. As at 31 December 2020, the total trade receivable financing limit was EUR 9,999 000 and USD 1,000. The agreement is valid until 10 March 2021. The base interest rate is 3-month EURIBOR EUR, while the margin is 2.45% per annum.

****** On 29 September 2020, OP Corporate Bank plz Latvia branch issued to AS ELKO Grupa a import letter of credit amounting to USD 2,668,420. The guarantee is valid until 29 January 2021.

The effective interest rate on bank loans as at 31 December 2020 was 4.906% (31 December 2019: 4.93%).

For the loan agreement extensions, see Note 36 'Events after the end of the reporting period'.

26. Other liabilities

	31.12.2020	31.12.2019
	EUR	EUR
Bonuses for the reporting year	263,992	288,362
Other liabilities	22,736	5,840
	286,728	294,202

27. Taxes payable

	Corporate income tax	VAT (Latvia)	VAT (Netherlands)	Statutory social insurance contributions	Personal income tax	Unemployment risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 31.12.2018	**-**	**55,013**	**-**	**-**	**-**	**-**	**55,013**
(Receivable) as at 31.12.2018	**(164,953)**	**-**	**(1,227,989)**	**-**	**(860)**	**-**	**(1,393,802)**
Calculated for 2019	15,905	(319,319)	(4,066,994)	2,229,783	1,118,139	1,124	(1,021,362)
Refunded	-	297,240	2,963,365	-	-	-	3,260,605
Paid in 2019	-	(133,000)	-	(2,230,401)	(1,118,385)	(1,124)	(3,482,910)
Payable as at 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Receivable) as at 31.12.2019	**(149,048)**	**(100,066)**	**(2,331,618)**	**(618)**	**(1,106)**	**-**	**(2,582,456)**
Calculated for 2020	73,415	(352,026)	(4,555,752)	2,358,653	1,182,317	1,126	(1,292,267)
Refunded	-	618,623	5,487,524	-	-	-	6,106,147
Paid in 2020	-	(280,243)	-	(2,360,587)	(1,182,189)	(1,126)	(3,824,145)
Payable as at 31.12.2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Receivable) as at 31.12.2020	**(75,633)**	**(113,712)**	**(1,399,846)**	**(2,552)**	**(978)**	**-**	**(1,592,721)**

* Overpaid taxes are disclosed as other receivables (see Note 18).

28. Accrued liabilities

	31.12.2020	31.12.2019
	EUR	EUR
Vacation pay reserve	510,813	325,342
Other accrued expense	474,562	538,776
Interest accrued on loans from related companies	100,232	3,850
Interest accrued on loans from shareholders	1,148,045	32,775
	2,233,652	**900,743**

29. Changes in financial liabilities from financing activities

	01.01.2020	Cash flow	Change in fair value	Other	31.12.2020
	EUR	EUR	EUR	EUR	EUR
Other loans (non-current portion)	31,192,424	(3,312,173)	-	-	27,880,251
Loans from credit institutions (current portion)	30,793,752	(2,531,696)	-	2,174,574	30,436,630
Debt securities	-	-	-	-	-
Other loans (current portion)	12,487,556	-	-	(5,051,082)	7,436,474
Loans from related companies	16,650,000	-	-	(3,650,000)	13,000,000
Undrawn dividends	4,932	(4,932)	-	-	-
Derivative financial instruments	6,440	-	77,710	-	84,150
Total	**91,135,104**	**(5,848,801)**	**77,710**	**(6,526,508)**	**78,837,505**

30. Average number of employees

	2020	2019
Average number of employees during the reporting year:	261	259

31. Management compensation

	2020	2019
	EUR	EUR
Board Members		
- Salaries	220,106	223,708
- Statutory social insurance contributions	53,024	53,891
	273,130	**277,599**

The Board and Council Members do not receive remuneration for their functions in the Board and Council of the Company. Remuneration disclosed in Note 31 represents salaries paid for the execution of official duties under employment contracts.

32. Pledges, guarantees and contingencies

On 14 December 2017, AS ELKO Grupa issued a guarantee to Schneider Electric IT Logistics Europe Ltd on the liabilities of the subsidiary ELKOTech Romania SRL amounting to EUR 500,000. The guarantee is valid until 27 November 2021.

On 29 April 2015, AS ELKO Grupa issued a guarantee to Banca Transilvania S.A. on the liabilities of the subsidiary ELKOTech Romania SRL. On 6 August 2019, the guarantee was amended setting its amount at RON 44,627,950. The guarantee is valid until the liabilities are fully settled.

On 21 December 2018, AS ELKO Grupa signed an agreement with OTP Bank PJSC on increasing the amount of the guarantee issued on 1 April 2016 on the liabilities of the subsidiary Elko Ukraine LLC to UAH 350,000,000 and extending its maturity until 29 March 2022.

On 21 May 2018, AS ELKO Grupa issued a guarantee to OTP Bank PJSC on the liabilities of the subsidiary Elko Ukraine LLC amounting to UAH 30,000,000. The guarantee is valid until 30 June 2021.

On 12 June 2018, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd on the liabilities of the subsidiary ELKO Rus amounting to USD 20,000,000. On 28 May 2020, the guarantee was amended extending its maturity until 9 June 2021.

On 26 May 2020, AS Swedbank, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities of the subsidiary Elko Ukraine LLC towards PJSC Credit Agricole Bank amounting to USD 3,000,000. The guarantee is valid until 11 May 2021.

On 30 April 2020, OP Corporate Bank PLC, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities of the subsidiary Elko Ukraine LLC towards Asus Global PTE. LTD amounting to USD 200,000. On 14 August 2020, the amount was increased to USD 500,000. The guarantee is valid until 1 May 2022.

On 11 September 2020, Luminor Bank AS, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities of the Company towards Lanner Electronics INC. amounting to USD 1,500,000. The guarantee is valid until 3 February 2021.

On 28. October 2020, AS ELKO Grupa entered into an agreement with AS Citadele Banka on issuing and servicing of guarantees. The agreement expires on 27. October 2021. As at 31 December 2020, the guarantees issued by AS Citadele Banka totaled USD 5,266,897.

On 2 June 2010, AS Swedbank, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities of the Company towards Intel Corporation (UK) Ltd amounting to USD 1,000,000. On 15 December 2020, the bank guarantee was amended extending its maturity until 30 December 2021.

On 18 March 2019, AS ELKO Grupa issued a guarantee to PJSC Credit Agricole Bank securing the liabilities of the subsidiary ELKO Ukraine LLC amounting to USD 3,000,000. On 28 April 2020, the amendments to the agreement were signed extending the guarantee until 15 May 2021.

On 10 December 2018, Luminor Bank AS, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities of the Company towards Corum Origin amounting to EUR 761,250. On 4 December 2020, the bank guarantee was amended extending its maturity until 4 January 2022.

On 14 November 2018, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd on the liabilities of the subsidiary ELKO Ukraine LLC. On 10 November 2020, the guarantee was amended setting its amount at USD 10,000,000. The guarantee is valid until the liabilities are fully settled.

On 26 July 2019, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd on the liabilities of the subsidiary ELKOTech Romania SRL amounting to EUR 6,000,000. On 25 September 2020, the bank guarantee was amended extending its maturity until 31 December 2021.

32. Pledges, guarantees and contingencies (cont'd)

On 15 December 2017, AS ELKO Grupa issued a performance guarantee to Intel Corporation (UK) Ltd on the liabilities of the subsidiary ELKO Rus LTD. On 7 December 2020, the bank guarantee was amended extending its maturity until 31 December 2022.

On 26 June 2018, AS ELKO Grupa issued a performance guarantee to Acer Sales International on the liabilities of the subsidiary ELKO Rus LTD. On 3 September 2019, the guarantee was amended extending its maturity until 31 December 2021.

On 26 June 2018, AS ELKO Grupa issued a performance guarantee to Acer Sales International on the liabilities of the subsidiary ELKOTech Romania SRL. The guarantee is valid until the liabilities are fully settled.

On 14 March 2019, Luminor Bank AS, on behalf of AS ELKO Grupa, issued a guarantee securing the liabilities of the Company towards P14 SIA amounting to EUR 126,448.15. The bank guarantee is valid until 28 February 2021.

On 6 September 2018, AS ELKO Grupa issued a performance guarantee to Alfa Bank AS on the liabilities of the subsidiary ELKO Rus LTD. The guarantee is valid until the liabilities are fully settled.

On 19 October 2018, AS ELKO Grupa issued a performance guarantee to Alfa Bank JSC on the liabilities of the subsidiary ELKO Rus LTD. The guarantee is valid until the liabilities are fully settled.

On 1 August 2018, AS ELKO Grupa issued a guarantee to VTB Factoring LTD on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 7,000,000,000. The guarantee is valid until the liabilities are fully settled.

On 1 August 2018, AS ELKO Grupa issued a guarantee to VTB Factoring LTD on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 1,000,000,000. The guarantee is valid until the liabilities are fully settled.

On 6 November 2018, AS ELKO Grupa issued a guarantee to Sberbank PJSC on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 1,700,000,000. The guarantee is valid until 5 November 2024.

On 2 April 2019, AS ELKO Grupa issued a guarantee to Sberbank PJSC on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 200,000,000. The guarantee is valid until 27 March 2023.

On 2 April 2019, AS ELKO Grupa issued a guarantee to Sberbank PJSC on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 700,000,000. The guarantee is valid until 29 January 2025.

On 2 April 2019, AS ELKO Grupa issued a guarantee to Sberbank PJSC on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 800,000,000. The guarantee is valid until 7 February 2025.

All the assets of AS ELKO Grupa have been pledged for the benefit of lenders.

33. Related party disclosures

In the reporting year, AS ELKO Grupa sold computer components and provided services to its subsidiaries worth EUR 371 million (2019: EUR 308 million). In 2020, payments for these supplies were made by the contractual due dates. The Company had the following transactions with related parties:

Company	Sales - goods, services, other transactions		Purchases - goods, services, other transactions	
	2020	2019	2020	2019
	EUR	EUR	EUR	EUR
WESTech Spol s.r.o.	6,512,757	4,607,002	1,943,653	2,759,773
ELKOTech Romania SRL	25,751,058	13,647,190	743,900	902,255
LKOTEX d.o.o.	8,435,541	6,080,629	88,090	70,323
ELKO Lietuva UAB	876	67	611,311	506,283
ELKO Mobile Ltd	-	126,070	-	-
ELKO Trading Switzerland AG	61,961,308	21,325,333	-	-
Elko Trading Malta Limited LLC	175,647,277	220,171,052	1,365,690	-
ELKO Eesti OU	-	-	468,885	407,238
ELKO Polska Sp.Z.o.o.	-	-	332,522	339,839
ELKO Ukraine LLC	33,340,966	19,777,908	-	-
ELKO Marketing Ltd	6,526,117	-	-	2,187,055
Gandalf Distribution AB	52,507,307	22,017,446	12,440,231	1,877,879
ARAŠID spol. s.r.o.	-	-	421,346	-
AST Balts SIA	-	-	20,973	118,433
	370,683,202	**307,752,697**	**18,436,601**	**9,169,078**

Receivables and payables from transactions with related parties:

Company	Amounts due from subsidiaries		Amounts due to subsidiaries	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR	EUR	EUR	EUR
ELKOTech Romania SRL**	2,404,339	959,346	413,065	19,568
WESTech Spol s.r.o.	517,663	58,478	114,095	120,704
ELKO Eesti OU	-	-	75,410	55,026
ELKO Lietuva UAB	-	-	105,985	69,323
ELKOTEX d.o.o.	725,343	458,233	6,548	5,647
ELKO Trading Switzerland AG	13,913,614	10,895,584	-	-
Elko Trading Malta Limited LLC	27,870,381	60,553,788	-	-
Gandalf Distribution AB	5,135,501	2,411,736	20,317	53,223
ELKO Polska Sp.Z.o.o.	-	-	40,407	36,868
ELKO Ukraine LLC*	3,389,019	8,012,588	-	-
	53,955,860	**83,349,753**	**775,827**	**360,359**

* Including interest payable for current loans: EUR 6,698 in 2020 (2019: EUR 18,276).
** Including interest payable for current loans: EUR 48,324 in 2020 (2019: EUR 13,780).

33. Related party disclosures (cont'd)

Current loans to related companies

	31.12.2020 EUR	31.12.2019 EUR
ELKOTech Romania SRL*	530,000	530,000
ELKO Ukraina LLC **	3,259,718	3,560,620
ELKO Mobile Ltd., carrying amount ***	7,010,420	7,624,342
Allowance for the loan to ELKO Mobile Ltd. ****	(7,010,420)	(7,624,342)
	3,789,718	**4,090,620**

* 2019 On 7 August 2019, the Company issued a loan of EUR 530,000 to its subsidiary ELKOTech Romania SRL. The loan bears interest at 6.5% and matures on 24 April 2021.
** On 10 December 2020, a loan agreement for USD 30,000,000 was signed. The loan bears interest at 6% and matures on 10 December 2021. As at 31 December 2020, the outstanding loan amount was USD 4,000,000 (EUR 3,259,719) (31 December 2019: USD 4,000,000 (EUR 3,560,620)).

*** On 18 December 2020, the Company signed amendments to the loan agreement with the subsidiary ELKO Mobile Ltd, dated 19 May 2015. According to the amendments, the maturity has been extended until 31 December 2021 and the maximum loan amount is USD 50,000,000. The loan bears interest at 6.7% per annum (2019: 6,7%).

**** As at 31 December 2018, the Company assessed the loans to subsidiaries using the Expected Credit Loss approach (ECL) and concluded that due to the sharp decrease in the business volume of Lenovo and uncertain future plans of the company, the investment in the subsidiary ELKO Mobile ltd. of EUR 9,830,701 was not fully recoverable. As a result, ECLs of EUR 7,653,826 were recognized (see Note 34). The ECL calculation included the repayment of EUR 2,176,875 received after the end of the reporting year.
Assessing the expected cash flows of other subsidiaries, the Company concluded that no ECL allowances are necessary. Given the currency fluctuations, as at 31 December 2020, the allowance was reduced and totaled EUR 7,010,420.

Current loans from related parties

	31.12.2020 EUR	31.12.2019 EUR
Current loan from AST BALTA SIA, current amount *	-	3,650,000
Current loan from WESTech spol.s.r.o., current amount **	13,000,000	13,000,000
	13,000,000	**16,650,000**

* On 25 November 2019, the Company entered into a loan agreement with the subsidiary SIA AST BALTS. The loan amount is EUR 3,650,000 and bears interest at 3.5% per annum. The loan matured on 25 November 2020. On 25 March 2020, a reorganization through a merger was registered with the Commercial Register, namely, AS ELKO Grupa acquiring SIA AST BALTS.

** On 28 December 2020, the Company signed an agreement amending the loan agreement with the subsidiary WESTech spol.s.r.o., dated 30 December 2015. The loan maturity was extended until 31 March 2021. The maximum loan amount is EUR 7,000,000; the loan bears interest at 3% per annum.

On 28 December 2020, the Company signed an agreement amending the loan agreement with the subsidiary WESTech spol.s.r.o., dated 19 October 2017. The loan maturity was extended until 31 March 2021. The maximum loan amount is EUR 2,500,000; the loan bears interest at 3% per annum.

On 28 December 2020, the Company signed an agreement amending the loan agreement with the subsidiary WESTech spol.s.r.o., dated 1 January 2019. The loan maturity was extended until 31 March 2021. The maximum loan amount is EUR 3 500 000; the loan bears interest at 3% per annum.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest-free (except for loans issued) and settlement occurs in cash. There have been no guarantees provided or received for any related parties receivable or payables. Loans comprise the loans issued and interest accrued thereon.

The Company assesses the receivables from the related parties each financial year through examining the financial position of the respective related party and the market in which the related party operates.

34. Fair value measurement

Fair value measurement hierarchy as at 31 December 2020:

	Date of valuation	Total EUR	(Level 1) EUR	(Level 2) EUR	(Level 3) EUR
Assets measured at fair value:					
Current loans to related companies (Note 33)	31 December 2020	3,789,718	-	-	3,789,718
Liabilities measured at fair value:					
Lease liabilities under IFRS 16 (Note 24)	31 December 2020	13,024,842	-	-	13,024,842
Loans from credit institutions (Note 25)	31 December 2020	28,262,056	-	28,262,056	-
Loans from related companies (Note 33)	31 December 2020	13,000,000	-	-	13,000,000

Fair value measurement hierarchy as at 31 December 2019

	Date of valuation	Total EUR	(Level 1) EUR	(Level 2) EUR	(Level 3) EUR
Assets measured at fair value:					
Current loans to related companies (Note 33)	31 December 2019	4,090,620	-	-	4,090,620
Liabilities measured at fair value:					
Lease liabilities under IFRS 16 (Note 24)	31 December 2019	13,921,609	-	-	13,921,609
Loans from credit institutions (Note 25)	31 December 2019	30,793,752	-	30,793,752	-
Loans from related companies (Note 33)	31 December 2019	16,650,000	-	-	16,650,000

No assets or liabilities were transferred from Level 1 to Level 2.

35. Financial risk management

Geopolitical risk

A significant part of the Group revenues is generated from sales to Russia and Ukraine (99% of sales to the CIS region are covered by Russian and Ukrainian subsidiaries).

Political situation in Ukraine remained stable throughout the year, which allowed for more stable economy. Despite the significant impact of COVID-19 lockdown in the first and second quarter of 2020, Ukrainian economy, with the help of internal resources, managed to recover quite well during the last two quarters recovering from 11.4% year-on-year GDP drop as of Q2 to only 3.5% as of 31 December 2020.
UAH/USD rate remained within the range of 24-28 with mean of 27.

In 2020, the economy of Russia was still under pressure due to unstable and low oil prices and its relationship with the USA, especially in the light of new presidential election. All these factors triggered volatility of the Russian rouble throughout the year which was within the range of 74-80 with the mean of 74. Moreover, economy was disturbed by limitations introduced as a response to COVID-19. As a result, Russia's GDP shrank by 3.1% in 2020, in comparison to 2019, but managed to be above the Central Bank’s projection of a decline of 3.9%.

35.Financial risk management (cont'd)

As of March 2021, the RUB has gained its power and reached the value of 74 rouble to US dollar.
Considering the above mentioned, the Group has implemented risk mitigation actions. To mitigate foreign currency translation risks, the Group purchases financial derivatives. Management is closely monitoring economic situation and developments in the East European region.

Multi-currency settlement risk

AS ELKO Grupa operates internationally and is therefore exposed to foreign currency risk arising primarily with respect to the US dollar. Foreign currency risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments.
Purchases of goods from vendors are predominantly made in the US dollar and the euro. Sales by the Company to its subsidiaries are chiefly made in the US dollar. Sales to Lithuanian and Estonian customers are carried out in the euro.
Revenue of the Company is mainly derived in the US dollar. Accordingly, the Company raises financing also in the US dollar to minimize foreign currency risk.
The following table demonstrates the sensitivity to a reasonably possible change of the US dollar exchange rate to other currencies used by the Company, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity (due to changes in the fair value of monetary assets and liabilities).

Increase / decrease in US dollar rate to EUR	Effect on profit ('000)	Effect on equity ('000)
2020		
+10%	940	940
-10%	(940)	(940)
2019		
+10%	(550)	(550)
-10%	550	550

The Company uses derivatives, such as foreign exchange forwards to hedge risks associated with exchange rate fluctuations.

35. Financial risk management (cont'd)

Interest rate risk

AS ELKO Grupa exposure to the risk of changes in market interest rates relates primarily to the Company's short-term borrowings to finance a part of its working capital needs, which exposes the Company's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. In 2020, the Company's borrowings at variable rates were predominantly denominated in US dollars (Note 25).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's profit before tax through the impact on floating rate borrowings.

	The base rate increase/ decrease	Effect on profit before tax ('000)
2020		
	+10	+76
	-10	-76
2019	+10	+44
	-10	-44

Credit risk

AS ELKO Grupa pursues a conservative credit monitoring policy. According to the credit policy, individual credit limits assigned to customers are subject to careful examination, and the utilization of credits is monitored on a regular basis.

In 2013, AS ELKO Grupa entered into a cooperation agreement with the receivables insurance company Atradius Credit Insurance N.V. The agreement provides for the insurance of certain balances due from Baltic debtors to the extent of 95%. In 2019, AS ELKO Grupa entered into a cooperation agreement with Equinox Global GmbH, a trade credit insurance company. The agreement permits certain customers to obtain higher insurance limits in addition to those already granted (assigned) by Atradius Credit Insurance N.V.

As at 31 December 2020, the maximum exposure to credit risk was EUR 88,077 thousand (31 December 2019: EUR 110,469).

The main customers of the Company are related parties whose mutual transactions comprise 59% (2019: 62%) of the total net turnover. Company's net turnover is mostly generated by transactions with the CIS and Central and Eastern European customers (see Note 33). The Company does not have a single customer in the Baltic region with transactions comprising 10% of its turnover generated in the Baltic.

Liquidity risk

The liquidity risk management policy adopted by the Company provides for the maintenance of sufficient cash and an adequate amount of committed credit facilities with credit institutions. The management of AS ELKO Grupa intends to increase liquidity reserves on the basis of expected cash flows, by managing working capital in a more efficient manner.

The earliest possible date for exercising the guarantees is at request and the maximum claim amount was EUR 80,331 thousand as at 31 December 2020.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2020 based on contractual undiscounted payments, EUR'000:

2020	**On demand**	**< 3 months**	**3 - 12 months**	**1 – 5 years**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Non-current loans	-	-	-	27,611	**27,611**
Current loans	-	13,000	35,967	-	**48,967**
Trade and other payables	-	52,160	-	-	**52,160**
Other liabilities	-	287	-	-	**287**
Derivative financial instruments	-	84	-	-	**84**
Total	**-**	**65,531**	**35,967**	**27,611**	**129,109**

35. Financial risk management (cont'd)

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2019 based on contractual undiscounted payments, EUR'000:

2019	On demand EUR'000	< 3 months EUR'000	3 - 12 months EUR'000	1 – 5 years EUR'000	Total EUR'000
Non-current loans	-	-	-	31,214	**31,214**
Current loans	-	16,195	43,736	-	**59,931**
Trade and other payables	-	64,098	-	-	**64,098**
Other liabilities	-	294	-	-	**294**
Derivative financial instruments	-	6	-	-	**6**
Total	**-**	**80,593**	**43,736**	**31,214**	**155,543**

Legal risk

For the most part, the Company's sales represent transactions with the subsidiary Elko Trading Malta, which supplies goods only to the CIS region (Russia and Ukraine). Therefore, this subsidiary is exposed to legal and business risks associated with its operations on the Russian and Ukrainian markets. Hence, the management believes that AS ELKO Grupa is exposed to legal and business risks of the Russian and Ukrainian markets through its subsidiary and the ability of AS ELKO Grupa to continue its operations and its financial position and performance could be substantially affected by changes in the interpretation and application of Russian or Ukrainian laws and regulations.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the financial years presented.

According to legal requirements the board has to ask for shareholder meeting to deal with the capital issue if the equity of the parent company falls below 50% of the share capital.

	31.12.2020 EUR '000	31.12.2019 EUR '000
Company financials		
Share capital	9,901	9,785
Total equity:	29,734	23,992
Total equity/ Share capital	**300**	**245**

36. Events after the end of the reporting period

Financing

Existing financing provided by syndicate of banks matures on 31 July 2021. Negotiations on prolongation of the financing fiished and decision for prolongation in the existing limit already received from OP Corporate Bank, Luminor Bank and Swedbank.

On 12 February 2021, AS ELKO Grupa issued EUR 20 million bonds with a maturity of 5 years and a coupon rate of 6%. The bonds will be listed on the Nasdaq Riga Alternative Market First North list.

The Group has been always looking for possibility to strengthen its presence in Central European market by both organic growth and by means of acquisition of other players in the market. Thus, at the end of 2020 the Group has started negotiations regarding acquisition of IT Smart Distribution SRL (Romania). In April 2021 SPA agreement has been signed on acquisition of the 100% shares of the company. Closing of the transaction is planned by the end of second quarter of 2021.

Market conditions

During the year 2020, the global fight against Covid-19 pandemic continued. Irrespective of that, most of world economies started to recover.

Due to many limitations and lockdowns imposed, demand for IT goods significantly increased in 2020, bringing to the Group 16% increase in revenue and 26% in gross profit.

According to the operational data, at the end of Q1 2021, ELKO Group sales and gross margin increased by 24% and 36% respectively in comparison to the same period of 2020. As to the sales, the Group has achieved its quarterly budgeted figure.

Impact of COVID-19

With the recent and rapid development of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.
In the Republic of Latvia as well as in many other countries starting March 2020 different restrictions to limit the COVID-19 spread came into effect leading to a considerable economic slowdown. The objective of these public policy measures was and is to contain the spread of COVID-19 outbreak and have resulted in operational disruptions.
In parallel, governments, including the Republic of Latvia, introduced various financial support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Company has not applied for such government assistance.
The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty though, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. Management's current expectations and estimates could differ from actual results.

Management will continue to monitor the situation closely and assess/seek additional measures/committed facilities as a fall back plan in case the period of disruption becomes prolonged.

The full impact of the COVID-19 pandemic on economic activity is still unknown and the situation is still developing. The Company's management believes that COVID-19 will not have material impact on the business operations after the reporting date. However, this assumption is based on the information available at the time of signing these financial statements and the impact of future events on the Company's ability to continue as a going concern may differ from the management's assessment.

Except as disclosed above, as of the last day of the reporting year there have been no other events which could produce a material impact on the Company's financial position as at 31 December 2020.

Egons Mednis Chairman of the Board, President	Olga Ivanova Chief Accountant

19 April 2021

Building a better working world

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Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the shareholders of Elko Grupa AS

Opinion

We have audited the accompanying financial statements of Elko Grupa AS (the Company) set out on pages 8 to 52 of the accompanying Annual Report, which comprise the statement of financial position as at 31 December 2020 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

Management is responsible for the other information. The other information comprises:

- The General information about the Company as set out on page 3 of the accompanying Annual Report;
- the Management Report as set out on pages 4 to 6 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report.

Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

ERNST & YOUNG BALTIC SIA
License No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153
Riga,
19 April 2021

ELKO GRUPA AS

Consolidated Annual Report

For the year ended 31 December 2020
Pepared in accordance with International Financial Reporting Standards as adopted by EU

* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Content

General information

Group name	ELKO GRUPA AS
Legal status of the Group	Joint Stock Company
Unified registration number, place and date of registration	000 312 956 Riga, 14 May, 1993 Re-registration in Commercial register 2 December, 2003 with re-registration number 4 000 312 956 4
Registered office	4 Toma street Riga LV-1003 Latvia
Shareholders	Ashington Business Inc. Limited (2,350,736 A category shares), United Kingdom Solsbury Inventions Limited (2,342,351 A category shares), United Kingdom Eurotrail SIA (1,302,762 A category shares), Latvia Whitebarn SIA (1,302,762 A category shares), Latvia KRM Serviss SIA (1,274,223 A category shares), Latvia Solo Investīcijas IT SIA (1,211,956 A category shares), Latvia
Personal non voting shares	Svens Dinsdorfs (57,995 shares) Egons Mednis (32,219 shares) Mārtiņš Ozoliņš (12,888 shares) Vadims Rabša (12,888 shares)
Council Members	Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member
Board Members	Egons Mednis – Chairman of the Board with powers to represent the Group individually, President Svens Dinsdorfs – Board Member with powers to represent the Group individually, Chief Executive Officer Mārtiņš Ozoliņš – Board Member with powers to represent the Group individually, Acting Chief Commercial Director Vadims Rabša – Board Member with powers to represent the Group individually, Board Member, Chief Financial Officer
Reporting year	1 January – 31 December, 2020

Management report

Business activities

AS ELKO Grupa and its subsidiaries (hereinafter – the Group or ELKO) is one of the largest distributors of IT products in the Central and Eastern Europe. The Group's core business activity is wholesale distribution of IT products such as smartphones and tablets, computer desktop components and peripherals, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO Grupa subsidiaries and cooperation partners. ELKO represents a broad range of vendors from all over the world, including Lenovo, Apple, Intel, Huawei, Seagate, Western Digital, Asus, Acer, Samsung, LG and other global and local vendors.
The key to the success is ELKO's long-term strategy for cooperation with vendors developed over the years, centralized purchase system, functionality of business process management and financial management.

Financial analysis

Despite challenging geopolitical situation in CIS region, increasing competition in all ELKO target markets as well as changing environment influenced by COVID-19, the Group in 2020 reached revenue of 2,185 million USD (1,914 million EUR), which was 16,06% increase comparing to 2019. Gross profit for 2020 was 129,9 million USD (113,8 million EUR), which was 30% increase comparing to 2019.

The net result of the Group for 2020 was 34,5 million USD (30,2 million EUR) comparing to 19,7 million USD (17,7 million EUR) in 2019.

AS ELKO GRUPA structure

ELKO Grupa AS has shareholdings in the following subsidiaries: ELKO Lietuva UAB, ELKOTEX d.o.o., ELKO Eesti OU, ELKOTech Romania SRL, WESTech spol. s r.o., WESTech CZ s r.o., ELKO Trading Switzerland A.G., ELKO Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine LLC, ELKO Rus LTD, SWISS SPOL s.r.o., Gandalf Distribution AB, ELKO Trading Malta LTD, TD Absolut Llc and Arašid spol. s r.o., ELKO Polska Sp. z.o.o.

AS ELKO Grupa has majority shareholding in all of the subsidiaries.

Financial risk management

Multi-currency risk

The Group operates internationally and is exposed to foreign exchange risks accordingly, primarily from the US dollar, euro, Russian rouble, Romanian lei, Swedish krona and Ukrainian grivna. Foreign exchange risks arise from future multi-currency transactions and the recognition of assets, liabilities and long-term investments in a variety of currencies.
The purchase of goods is predominantly in US dollars, but sales are conducted in different currencies. In the CIS region, the main currency is US dollar and Russian rouble, but in the Baltics, trade is conducted in euros. CEE countries Slovakia and Slovenia trade in euros, but Romania in its national currency – the Romanian lei. In the Nordic region, most sales are transacted in Swedish krona.

Management report (continued)

Multi-currency risk (continued)

The Group has shareholdings in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – the EUR.
Currency risk is actively mitigated by using different bank products. The Group has centrally developed and globally applied currency risk management policies and procedures.

As the Group functional currency is US dollars, for minimizing the currency risk, financing is attracted in US dollars. The Group monitors the open foreign currency positions and if necessary acquires adequate financing instruments to minimize the risk.

Interest rate risk

The Group uses current borrowing rates for financing part of its current assets. All the borrowings are at floating rate that exposes the Group to interest rate risk.

Credit risk

Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO Grupa has implemented procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance and conservative credit monitoring policies. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilization of credit limits is regularly monitored.

Inventories

The Group determines the amount of inventories based on the expected future demand and market situation. Any changes in the demand and/ or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Group makes centralized plans for purchase and sale of the products and the procedures for ordering of the goods help to decrease the inventory days. Weekly inventory analysis decreases the need to establish provisions for obsolete items. The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of decline of the market prices for the goods at the Group's warehouse or that are already ordered.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Group's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

Proposed profit distribution

The Board of the Group suggests to transfer the profit to Retained earnings in order to support future investments and maintain financial stability.

Prospects

The Group's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Group has cooperation partners.

The key factors driving the Group's growth is the increase in demand in the markets where the Group operates as well as the Group's continuous efforts on development of the offered product portfolio and maintenance of efficient and cost effective distribution channels.

The Group continuously improves its cost control and working capital management procedures ensuring higher returns on equity.
The Group believes that the above-mentioned factors will help to sustain continuous growth also in the coming years, ensuring positive results of our operations.

Management report (continued)

Events after the reporting period

Starting from late 2019 and up to the report issuing date the world economy is struggling with the consequences of the Covid-19 pandemic.

The pandemic caused many businesses decrease their operations, leading to employees lay off and fall in orders and purchases made.

In the current economic situation the Group has taken several fast actions to mitigate risks. For more detailed evaluation of circumstances triggered by pandemic and action taken by the Group please see Note 29 Events after the reporting period in the financial statements.

In order to diversify financing sources and attract long-term financing, in the beginning of 2021 the Group has issued 20 million EUR 5 years, unsecured bonds with coupon rate 6% p.a. payable semiannually. The mentioned bonds to be listed on Nasdaq First North.

Existing financing provided by syndicate of banks matures on 31 July 2021. Negotiations on prolongation of the financing fiished and decision for prolongation in the existing limit already received from OP Corporate Bank, Luminor Bank and Swedbank.

The Group has been always looking for possibility to strengthen its presence in Central European market by both organic growth and by means of acquisition of other players in the market. Thus, at the end of 2020 the Group has started negotiations regarding acquisition of IT Smart Distribution SRL (Romania). In April 2021 SPA agreement has been signed on acquisition of the 100% shares of the company. Closing of the transaction is planned by the end of second quarter of 2021.

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Egons Mednis
Chairman of the Board,
President
Riga, 19 April, 2021

Statement of Directors' Responsibility

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated financial statements give true and fair view in all material aspects of the financial position of the Group as of December 31, 2020 and of its financial operations for the year ended 31 December, 2020. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;

has provided well-grounded and prudent conclusions and evaluations;

has followed the going concern principle.

The Board of Directors of AS ELKO Grupa is responsible for the maintenance of proper accounting records so that at the appropriate moment the financial records would show the true and fair view of the financial position of the Group and would ensure the possibility for the management to prepare the financial statements accordance with International Financial Reporting Standards as adopted by the European Union.

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Egons Mednis
Chairman of the Board,
President
Riga, 19 April, 2021

Consolidated financial statements

Consolidated statements of comprehensive income

	Note	2020 USD'000	2019 USD'000	2020 EUR'000	2019 EUR'000
Sale of goods	6	2,185,291	1,882,817	1,914,625	1,681,844
Cost of sales	7	(2,055,358)	(1,783,148)	(1,800,787)	(1,592,814)
Gross profit		**129,933**	**99,669**	**113,838**	**89,030**
Other operating income	8.1	13,061	12,158	11,444	10,860
Selling and distribution costs	7	(14,600)	(12,438)	(12,792)	(11,110)
Administrative expenses	7	(50,796)	(50,492)	(44,505)	(45,102)
Other operating expenses	8.2	(14,578)	(9,669)	(12,772)	(8,637)
Operating profit		**63,020**	**39,228**	**55,213**	**35,041**
Finance income		483	656	423	586
Finance expenses		(16,023)	(12,383)	(14,038)	(11,061)
Finance income/ (expenses) – net	9	**(15,540)**	**(11,727)**	**(13,615)**	**(10,475)**
Profit before tax from continuing operations		**47,480**	**27,501**	**41,598**	**24,566**
Income tax expense	11	(12,971)	(7,709)	(11,364)	(6,886)
Profit (loss) for the year from continuing operations		**34,509**	**19,792**	**30,234**	**17,680**
Attributable to:					
Equity holders of the Company		29,119	16,500	25,512	14,739
Non-controlling interests		5,390	3,292	4,722	2,941
		34,509	**19,792**	**30,234**	**17,680**
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company	12	**2.94**	**1.69**	**2.58**	**1.51**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Exchange differences on translation of foreign operations		4,377	(4)	(4,869)	2,055
Total comprehensive incomes for the year		**38,886**	**19,788**	**25,365**	**19,735**
Attributable to:					
Equity holders of the Company		31,937	16,782	20,501	16,905
Non-controlling interests		6,949	3,006	4,864	2,830
		38,886	**19,788**	**25,365**	**19,735**

The notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

19 April 2021

Consolidated statements of financial position

ASSETS	Note	31.12.2020 USD'000	31.12.2019 USD'000	31.12.2020 EUR'000	31.12.2019 EUR'000
Non-current assets					
Intangible assets	14	1,756	1,094	1,431	973
Property, plant and equipment	15.1	6,133	5,407	4,998	4,813
Right-of-use assets	15.2	32,432	26,982	26,430	24,019
Goodwill	14&21	1,823	1,603	1,486	1,427
Non-current loans	16	442	138	360	123
		42,586	**35,224**	**34,705**	**31,355**
Current assets					
Inventories	17	187,822	168,896	153,062	150,343
Current income tax receivable		463	1,152	378	1,026
Trade and other receivables and prepayments	18	321,750	268,527	262,203	239,030
Cash deposits	19	4,437	2,000	3,616	1,779
Cash and cash equivalents	19	41,101	27,328	33,494	24,328
		555,573	**467,903**	**452,753**	**416,506**
Total assets		**598,159**	**503,127**	**487,458**	**447,861**
EQUITY					
Issued capital	20	11,251	11,114	9,901	9,785
Share premium	20	5,996	5,996	4,974	4,974
Translation reserve	20	(6,516)	(9,334)	(2,792)	2,219
Retained earnings		91,886	66,904	71,542	49,498
Equity attributable to equity holders of the Parent Company		**102,617**	**74,680**	**83,625**	**66,476**
Non-controlling interests in equity		**16,475**	**11,270**	**13,426**	**10,032**
Total equity		**119,092**	**85,950**	**97,051**	**76,508**
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	22	387	245	316	218
Interest-bearing loans from related parties	22	19,630	20,817	15,997	18,531
Lease liabilities	15.2&22	26,952	21,111	21,964	18,792
		46,969	**42,173**	**38,277**	**37,541**
Current liabilities					
Trade and other payables	23	260,811	228,548	212,543	203,443
Contract liabilities	23	6,542	4,196	5,332	3,735
Interest-bearing loans and borrowings	22	139,750	120,106	113,886	106,913
Interest-bearing loans from related parties	22	7,724	12,613	6,295	11,228
Lease liabilities	22	6,464	6,388	5,267	5,686
Income tax payable		8,650	2,262	7,049	2,014
Provisions		2,054	884	1,674	787
Derivative financial instruments	25	103	7	84	6
		432,098	**375,004**	**352,130**	**333,812**
Total liabilities		**479,067**	**417,177**	**390,407**	**371,353**
Total equity and liabilities		**598,159**	**503,127**	**487,458**	**447,861**

The notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

19 April 2021

Consolidated statement of changes in equity

	Attributable to equity holders of the Parent Company						
	Issued capital	**Share premium**	**Retained earnings**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Balance at 1 January 2019	**11,114**	**5,996**	**90,955**	**(9,616)**	**98,449**	**9,368**	**107,817**
Other comprehensive income	-	-	-	282	282	(286)	(4)
Profit for the year	-	-	16,500	-	16,500	3,292	19,792
Total comprehensive income for 2019	**-**	**-**	**16,500**	**282**	**16,782**	**3,006**	**19,788**
Dividend(note 13)	-	-	(40,551)	-	(40,551)	(1,104)	(41,655)
Balance at 31 December 2019	**11,114**	**5,996**	**66,904**	**(9,334)**	**74,680**	**11,270**	**85,950**
Balance at 1 January 2020	**11,114**	**5,996**	**66,904**	**(9,334)**	**74,680**	**11,270**	**85,950**
Other comprehensive income	-	-	-	2,818	2,818	1,559	4,377
Employee shares	137	-	(137)	-	-	-	-
Profit for the year	-	-	29,119	-	29,119	5,390	34,509
Total comprehensive income for 2020	**137**	**-**	**28,982**	**2,818**	**31,937**	**6,949**	**38,886**
Dividend(note 13)	-	-	(4,000)	-	(4,000)	(1,744)	(5,744)
Balance at 31 December 2020	**11,251**	**5,996**	**91,886**	**(6,516)**	**102,617**	**16,475**	**119,092**

	Issued capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January 2019	**9,785**	**4,974**	**71,169**	**53**	**85,981**	**8,182**	**94,163**
Other comprehensive income	-	-	-	2,166	2,166	(111)	2,055
Profit for the year	-	-	14,739	-	14,739	2,941	17,680
Total comprehensive income for 2019	**-**	**-**	**14,739**	**2,166**	**16,905**	**2,830**	**19,735**
Dividend(note 13)	-	-	(36,410)	-	(36,410)	(980)	(37,390)
Balance at 31 December 2019	**9,785**	**4,974**	**49,498**	**2,219**	**66,476**	**10,032**	**76,508**
Balance at 1 January 2020	**9,785**	**4,974**	**49,498**	**2,219**	**66,476**	**10,032**	**76,508**
Other comprehensive income	-	-	-	(5,011)	(5,011)	142	(4,869)
Employee shares	116	-	(116)	-	-	-	-
Profit for the year	-	-	25,512	-	25,512	4,722	30,234
Total comprehensive income for 2020	**116**	**-**	**25,396**	**(5,011)**	**20,501**	**4,864**	**25,365**
Dividend(note 13)	-	-	(3,352)	-	(3,352)	(1,470)	(4,822)
Balance at 31 December 2020	**9,901**	**4,974**	**71,542**	**(2,792)**	**83,625**	**13,426**	**97,051**

Retained earnings are USD 91,886 thousand or EUR 71,542 thousand (2019: USD 66,904 thousand or EUR 49,498 thousand), of which USD 77 thousand or EUR 63 thousand) (2019: USD 77 thousand or EUR 63 thousand) are statutory reserves and are not available for dividend distribution.

The notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

19 April 2021

Consolidated statement of cash flows

Operating activities	Note	2020 USD'000	2019 USD'000	2020 EUR'000	2019 EUR'000
Profit before tax from continuing operations		47,480	27,501	41,598	24,566
Non-cash adjustments to reconcile profit before tax to net cash flows					
Depreciation of property, plant and equipment	15.1	1,636	1,640	1,333	1,460
Amortisation of intangible assets	14	352	228	287	203
Finance income	9	(482)	(656)	(423)	(586)
Finance costs	9	16,022	12,383	14,038	11,060
Fair value (gain)		96	(648)	78	(565)
Movements in provisions and allowances		1,170	(64)	887	(41)
Gain on disposal of property, plant and equipment		(46)	(92)	(40)	(82)
Working capital adjustments:					
Increase in trade and other receivables		(52,534)	(23,412)	(22,525)	(24,975)
Decrease/(Increase) in inventories		(18,926)	1,616	(2,719)	(1,424)
(Decrease)/ Increase in trade and other payables		37,348	(21,495)	5,072	(13,235)
Interest received		483	656	423	586
Interest paid	9	(16,023)	(12,383)	(14,038)	(11,061)
Income tax paid		(6,043)	(479)	(5,431)	(428)
Net cash flows (used in)/ operating activities		**10,533**	**(15,205)**	**18,540**	**(14,522)**
Investing activities					
Purchases of property, plant and equipment	15.1	(3,120)	(2,755)	(2,542)	(2,453)
Purchases of intangible assets	14	(927)	(357)	(755)	(317)
Acquisition of a subsidiary		28	(641)	26	(571)
Proceeds from cash deposits		2,437	500	1,986	445
Net cash flows (used in)/from investing activities		**(1,582)**	**(3,253)**	**(1,285)**	**(2,896)**
Financing activities					
Proceeds from bank overdrafts, net		14,014	9,780	-	10,565
Repayment of borrowings		-	-	(159)	-
Payment of principal portion of lease liabilities	15.2	(7,442)	(6,997)	(6,455)	(6,250)
Dividends paid to equity holders of the parent		(6)	(7,000)	(5)	(6,225)
Dividends paid to the Minority shareholders		(1,744)	(1,104)	(1,470)	(980)
Net cash flows (used in) / from financing activities		**4,822**	**(5,321)**	**(8,089)**	**(2,890)**
Net increase in cash and cash equivalents		**13,773**	**(23,779)**	**9,166**	**(20,307)**
Cash and cash equivalents at beginning of the year		27,328	51,107	24,328	44,635
Cash and cash equivalents at end of the year		**41,101**	**27,328**	**33,494**	**24,328**

The notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

19 April 2021

Notes to the consolidated financial statements

1 General information

ELKO Grupa AS ("the Parent") and its subsidiaries (together "the Group") principal activity is wholesale distribution of computer desktop components, notebooks, monitors, peripherals, multimedia, consumer and solution products, using the wide network of the Group companies and cooperation partners, representing a broad range of vendors of these products all over the world. The selection includes products from a range of vendors, including Acer, Intel, Western Digital, Seagate, AMD, Hitachi, Sony, Lenovo, Microsoft, Asus, Giga-Byte, Samsung, Toshiba and others.

The Parent Company is a joint stock company incorporated and domiciled in Latvia with company's registered office at Toma str, 4, Riga, LV-1003, Latvia. These consolidated financial statements have been prepared and approved for issue by the Management on 19 April 2021 and signed on its behalf by the Chairman of the Board Egons Mednis.
The financial statements are subject to the approval of the shareholders in general meeting.
The Parent Company has the following participating interests in its subsidiaries:

Name	**Country**	**Participating interest in share capital of subsidiaries**	
		31.12.2020	**31.12.2019**
		%	**%**
ELKO Eesti OU	Estonia	100%	100%
ELKO Lietuva UAB	Lithuania	100%	100%
ELKO Marketing Limited	Cyprus	100%	100%
ELKO Trading Switzerland AG	Switzerland	100%	100%
ELKOTech Romania SRL	Romania	100%	100%
Elco LLP*	Kazahstan	-	100%
ELKO Ukraine LLC	Ukraine	100%	100%
Gandalf Distribution AB**	Sweden	100%	100%
AST Balts SIA***	Latvia	-	100%
ELKO RUS Limited	Russia	100%	100%
ELKO Polska Sp. z o.o.	Poland	100%	100%
ELKO Trading Malta Limited	Malta	100%	100%
TD Absolut Llc.	Russia	100%	100%
ELKOTEX d.o.o.	Slovenia	51%	51%
WESTech s.r.o.	Slovakia	51%	51%
ELKO Mobile Limited	Cyprus	51%	51%
WESTech CZ s.r.o.	Czech Republic	51%	51%
ARAŠID spol. s r.o.****	Slovakia	51%	51%
SWISS SPOL s.r.o.*****	Slovakia	26%	26%

* In February 2020 ELKO Group AS sold its investment in Elco LLP.
**In July 2017 ELKO Group AS acquired 85% of shareholding in Gandalf Distribution AB. In accordance with the terms of the purchase agreement, the Company has the call option to purchase 15% of the shares for SEK 6 000 000, which is EUR 609 521 before September 30, 2019. Due to very high probability of acquisition of residual 15%, in consolidation for 2018 Gandalf Distribution AB was considered as 100% owned by ELKO Grupa AS. In August 2019 call option was used and 15% of shares were purchased by ELKO Grupa AS.
*** In March 2020 AST Balts SIA were merged with ELKO Group AS the result of the company reorganization.
**** Parent has control over ARAŠID spol. s r.o. through controlling interest owned by its subsidiary – WESTech s.r.o.
***** Parent has control over SWISS SPOL. s r.o. through controlling interest owned by its subsidiary – WESTech s.r.o.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in EUR and USD and all values are rounded to the nearest thousand (€/USD'000), except when otherwise indicated.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2020.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies.
All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.
When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2.1 Basis of preparation (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the Group recognizes bargaining purchase amount in profit and loss.
After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Consideration transferred, then the gain is recognised in profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.2 Foreign currency translation

The Group's functional currency is U.S. dollars. The company has decided, in addition to functional currency, also to present the financial statements in presentation currency euro (EUR) as required for filing purposes according to Latvian legislation.
In determination of functional currency Group has considered the following factors:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

(c) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.

(d) the currency in which receipts from operating activities are usually retained.

The following additional factors were considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the Parent:

(a) whether the activities of the foreign operation are carried out as an extension of the Parent, rather than being carried out with a significant degree of autonomy.

(b) whether transactions with the Parent are a high or a low proportion of the foreign operation's activities.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the Parent and are readily available for remittance to it.

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the Parent.

2.2 Foreign currency translation (continued)

Transactions and balances
As the presentation currency differs from the Group's functional currency, it translates its results and financial position into the presentation currency. Based on IAS 21 The Effects of Changes in Foreign Exchange Rates, the results and financial position of an entity shall be translated into a different presentation currency using the following procedures:
(a) assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
(b) income and expenses for each statement presenting profit or loss and other comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and
(c) all resulting exchange differences shall be recognized in other comprehensive income.

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Group's functional currency U.S. dollars at the European Central Bank rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised as gain or loss.
Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from contracts with customers
The Group is in the business of providing IT products and solutions. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in all of its revenue arrangements.
The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3. Revenues from contracts with customers are disclosed in Note 6.

Sale of goods
Revenue from the sale of goods is recognised when the control of the goods have passed to the buyer, usually on delivery of the goods to end customer. The goods on which the control has not been passed to client are recognized as consignment stock and revenue is recognized only when the respecitve goods are sold to the end customers.

Sale of IT products
Revenue from sale of IT products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The normal credit term is 30 to 90 days upon delivery.
The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

2.3. Revenue recognition (continued)

Rendering of services
The Group generates income from providing marketing and transport agency services that are sold separately from IT products. These services can also be obtained from other providers and do not significantly customise or modify IT products. These services are provided based on agreed time and material costs incurred or as a fixed-price contract. Revenue from fixed-price contracts for delivering transportation services is recognised over time using input method to measure the progress towards complete satisfaction of the service.

(i) Variable consideration
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of IT products provide customers with a right of return (only in case of, price protection and volume rebates). However, those right as only granted if and only in the amount of received rights from supplier. Therefore, the rights of return and volume rebates do not give rise to variable consideration.

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

Warranty obligations
The Group typically provides warranties for general repairs of defects that existed at the time of sale, mostly only in amount and for the term provided by vendor.
In the case, when warranty is provided ouside the warranty provided by supplier, these assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in section w) Provisions.

Contract balances

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 2.5. Trade receivables consist of trade receivables, accrued income, and debt on factoring as disclosed in Note 18.

The Group splits trade receivable balances in two portfolios based on a business model.
- Trade receivables from contracts with customers within a business model with the objective to hold financial assets in order to collect contractual cash flows are accounted at amortized cost and reviewed for impairment as disclosed in Note 2.5.
- Trade receivables from contracts with customers held with the only objective of selling the financial assets are accounted for at FVTPL (factoring with non-recourse).

Proceeds received in accordance with factoring agreements are recognized as prepayments from customers when the Group remain exposed to credit risk associated with the respective debtor. When credit risk remains with the contracting party or the factor, the proceeds are netted against the respective debtor balance in full.

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. Group identified prepayments received from customers as a contract liabilities.

2.3. Revenue recognition (continued)

Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividends.

Other income

Income from penalties charged to clients is recognized at the moment of receipt. Penalties represent mostly charges to customers for late payments.

2.4 Taxes

Income taxes

Based on Corporate Income Tax Law of the Republic of Latvia legal entities are not required to pay income tax on earned profits.. Corporate income tax is paid on distributed profits and deemed profit distributions at the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

For other copmanies within the Group current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

No provision is recognized for income tax payable on a dividend distribution before dividends are declared but information on the contingent liability is disclosed in the notes to the consolidated financial statements.

Deferred tax assets and liabilities

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Corporate income tax on profits and deferred income tax expense or benefit of subsidiaries located in countries mentioned below, as well as corporate income tax on dividends and deferred income tax expense on dividends of Latvian entities are reported in the consolidated statement of profit or loss.

2.4 Taxes (continued)

Deferred tax assets and liabilities (continued)

The corporate income tax rates in the major jurisdictions where the Group Companies are operating are:
Latvia – 25%
Russia – 20%
Ukraine – 18%
Slovakia – 21%
Romania – 16%
Cyprus – 12.5%
Switzerland – 8.5%
Kazakhstan – 20%
Slovenia – 19%
Sweden – 21.4%
Czech Republic – 19%
Malta – 35%

The consolidated financial statements include the current and deferred income tax of Russia, Slovenia, Slovakia, Czech Republic subsidiaries. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

Tax loss carry forward periods
Latvia – 5 years
Russia – ulimited period, but cannot exceed a cap (50% of the tax base of the current period)
Ukraine – indefinite
Slovakia – 4 years
Romania – 7 years
Cyprus – 5 years
Switzerland – 7 years
Kazakhstan – 10 years
Malta – indefinite
Sweden - indefinite
Poland – 5 years,but the deduction is restricted to 50% of the loss incurred.
Accumulated tax loss as at 31.12.2020 in Romania 81 thousand USD (66 thousand EUR).

Sales tax
Revenues, expenses and assets are recognised net of the amount of sales tax except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.5 Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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 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 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. Refer to the accounting policies in section 2.3 Revenue from contracts with customers.

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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Group does not hold financial assets at fair value through OCI, therefore further this category is not described.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. 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 includes trade receivables.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

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, including separated embedded 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.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised 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 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 asset is recognised to the extent of the Group's continuing involvement in the asset.
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
Further disclosures relating to impairment of financial assets are also provided in the following notes:
- Disclosures for significant assumptions Note 3
- Trade receivables, including contract assets Note 18

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established 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.
Based on the historical experience the Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

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.
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 derivative financial instruments as financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings 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 loans and borrowings. For more information, refer to Note 22.

Factoring
A factoring transaction is a funding transaction where the Group transfers to the factor claim rights from a debtor for a determined reward. The Group alienates the rights to receivables due at a future date according to invoices. The Group's factoring transactions comprise factoring transactions with recourse (the factor is entitled to selling the overdue claim back to the Group). The factoring expenses comprise the lump-sum contract fee charged on the conclusion of the contract, commission fees charged for processing the invoices, and interest expenses depending on the duration of the payment term set by the debtor. Factored accounts receivable with recourse are recorded under current borrowings and trade receivables captions in the financial statements. The Group derecognises the borrowings and the trade receivables at the moment when the debtor settles the liability with the factor. The factoring transactions with non-recourse are derecognized in the moment of trade receivables' sale to the factor.

Derecognition
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.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement
The Group uses derivative financial instruments, such as forward currency contracts, interest rate and currency swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Fair value of financial instruments
The Group measures financial instruments such as derivatives at fair value at each balance sheet date. Fair-value related disclosures for financial instruments are summarised in the note 26.

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 by 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 assets and liabilities for which fair value is measured or disclosed in the 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.

2.6 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in the statement of profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Property	20 years
Communication and computer engineering	2 years
Other	4-5 years
Leasehold improvements	3-5 years

2.6. Property, plant and equipment (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

2.7 Leases

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

Group as a lessee

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

Right-of-use assets

The Group has applied modified retrospective approach and recognised right-of-use assets starting from 1 January 2019. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Buildings 2 to 14 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.
The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.11(s) Impairment of non-financial assets.

Lease liabilities

As at 1 January 2019, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.
The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 22).

2.7 Leases (continued)

Short-term leases and leases of low-value assets

he Group applies the short-term and low value lease recognition exemption to its short-term and low value leases of viehicles and some premises (i.e., those leases that have a lease term of 12 months or less from the 1 January 2020 date and do not contain a purchase option). 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.

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 arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In 2019 and 2020 the Group had no acquisition, construction or production of assets qualifying for capitalization of borrowing costs attributed.

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

The useful lifes of intangible assets are assessed at 5 years.

Intangible assets with finite lifes are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the the statement of profit or loss when the asset is derecognised.

2.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of goods comprises acquisition costs, additional expenses related to transportation, import duties, duties for environmental protection and insurance as well as any discounts and allowances granted by vendors. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Estimated selling price is based upon an aging analysis of the inventory on hand, technological obsolescence, the nature of vendor relations and assumptions about future demand. The inventories are recognized at the moment when the invoice by the vendor is issued and the liability to the vendor is recognized.

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in statement of profit or loss.

Goodwill is tested for impairment annually as at 31 December or when circumstances indicate that the carrying value may be impaired.
Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.12 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

2.13 Share capital and dividend distribution

Ordinary shares are classified as equity. The Parent Company has issued ordinary shares and personnell non voting shares. All issued shares are fully paid. There are no share options in any of the years presented.

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

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 Warranties

The Group's vendors generally warrant the products distributed by the Group and allow returning defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain.

2.16 Vendor programs

The Group receives funds from vendors in a form of credit notes for price protection, product rebates, marketing and other product promotions. The credit notes for price protection are booked as decrease of the cost value of the inventory. The credit notes for rebates are recognized directly in the statement of comprehensive income as decrease of cost of sales. The credit notes for marketing and other product promotion are recognized as other revenue. Some of these programs may extend over one or more reporting periods. Rebates or other vendor incentives are recognized as earned based on sales of respective products or as services are provided in accordance with the terms of the related program.

2.17 Impact of Covid-19

With the recent and rapid development of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.
In the Republic of Latvia as well as in many other countries starting March 2020 different restrictions to limit the COVID-19 spread came into effect leading to a considerable economic slowdown. The objective of these public policy measures was and is to contain the spread of COVID-19 outbreak and have resulted in operational disruptions.

In parallel, governments, including the Republic of Latvia, introduced various financial support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Company has not applied for such government assistance.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty though, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. Management's current expectations and estimates could differ from actual results.
(the next step is to conclude if the financial effect is assessed as material or not and accordingly adopt one of the two disclosure options that follow).
Additional disclosures when the effect is not assessed as material

Management has considered the unique circumstances and the risk exposures of the Company and has concluded that there is no significant adverse impact in the Company's profitability position. COVID-19 did not have an immediate adverse material impact on the business operations.
The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.
Management will continue to monitor the situation closely and will assess the need for adjustment in operations of the Company in case the period of disruption becomes prolonged.

2.18 Going concern

The year 2020 showed a stable revenue growth of 16% on the Group level, revenue in the subsidiaries operating in the CIS region remained flat.

After the reporting period Covid-19 pandemic is still creating some turbulence in the world economy, including the CIS region. The main factor currently affecting revenue growth is shortage of goods on the market due to decreased production volumes This factor has a negative effect on revenue, but at the same time is viewed as a possibility for further increase of gross profit.

2.18 Going concern (continued)

In 2020 value of Russian ruble remained low, but due to the fact that it was not a surprise for the markets anymore, these did not lead to negative consequences for the Group.For more details on the events after the reporting period, see Note 29 below.

As of April 2020, the crisis described above had no significant impact on the Group's performance.

To ensure the ability to operate on going concern basis, the Group's management has identified the following main areas to be monitored – market risk in relation to Covid-19, FX risk and maintenance of financing facilities. Since the Group currently is already hedging its position and the costs of hedge are passed to customers the Group does not expect to have any significant impact on its operation and net results due to sudden changes in the RUB and UAH currency rates.

These consolidated financial statements for the year ended 31 December 2020 are prepared on going concern basis, consistently applying International Financial Reporting Standards as adopted by the European Union.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

3.1 Currency

The Management have evaluated that The Group's functional currency is U.S. dollars as financing activities and the purchase of goods from vendors is by the Parent Company in U.S. dollars, the sales from the Parent Company to its subsidiaries are done in U.S. dollars. The sales to customers are carried out by the subsidiaries in the respective local currencies, except for Elko Trading Switzerland AG and Elko Trading Malta, whose sales are done in U.S. dollars.

3.2 Control of subsidiaries

Group consolidate all entities, over which it has a control. Group has a control, when:
- it has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
-has an exposure, or rights, to variable returnsfrom its involvement with the investee;
-has an ability to use its power over the investee to affect the amount of returns.

Based on criteria above the Group have assessed that the group have control over Swiss spol s.r.o. and ARAŠID spol. s r.o (26% and 51% respectively) through controlling interest owned by its subsidiary – WESTech s.r.o.

For the list of entities included into the consolidated Group see Note 1.

3.3 Vendor programs

The Group has to estimate the amount of credit notes due from vendors at the date of the statement of financial position based on the available information and past experience. In several vendor programs the size of the rebate is dependent on the performance of other distributors and is known exclusively by the vendor.

An estimate of a receivable from vendors in relation to the vendors programs as of 31 December 2020 amounted to USD 12,557 thousand or EUR 10,233 thousand (2019: USD 9,802 thousand or EUR 8,725 thousand) based on the individual vendor agreements. Vendor programs are recognized as decrease in trade payables (Note 23).

3.4 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 11).

3.5 Impairment of inventories

The Group is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of most of the Group's vendors to protect distributors from the loss in value of inventory due to technological change or the vendors' price reductions. In 2020 impairment on inventory in amount of USD 16,960 or EUR 13,821 was recognized (see Note 17).

3.6 Determining the lease term of contracts with renewal and termination options – Group as lessee

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 several lease contracts that include extension and termination options. The Group applies judgement in evaluating, whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of premises with shorter non-cancellable period. The Group typically exercises its option to renew for office and warehouse premises. However, for stores this option is not always executed, as it depends on store profitability and possibility to change for better location. Each rent agreement has been evaluated individually by the Group in this regard.

3.7 Sub-lease classification

The Group has concluded several sub-lease agreements of its premises. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

3.8 Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3.9 Warranty provisions

The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs are incurred along the process of handling the returned goods. A provision for these assurance-type warranties estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience.

3.10 Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of transportation and marketing services
The Group concluded that revenue for transportation and marketing services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the services that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.
The Group determined that the input method is the best method in measuring progress of the transportation and marketing services because there is a direct relationship between the Group's effort (i.e., labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the labour hours and 3rd party expense expended relative to the total expected labour hours and 3rd party expense to complete the service.

Principal versus agent considerations
Based on the existence of credit risk and the nature of the consideration in the contract, Group has an exposure to the significant risks and rewards associated with the sale of IT products to its customers and accounts for the contracts as if it is a principal.
The Group's sales to CIS and other countries are performed to the end customers using a number of intermediaries. The customers perceive the Group as a seller of the goods, the intermediaries in substance do not assume general inventory risk and usually the payments are made by the intermediaries to the Group after the intermediaries have received cash from the customers. Based on the above the management has concluded that the intermediaries act as agents and the Group recognizes revenue after the intermediaries have sold goods to the customers. The goods that have been legally sold but for which no revenue is yet recognized are included in Inventories as consignment inventories (Note 17).

3.11 Allowance for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).
The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in IT retail sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.
The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.
The debtor balances 180 and more days overdue are considered to be default. Default rates for Companies with debtor insurance policy is calculated taking into consideration insurance limits and own risk. For Companies with no debtor insurance policy default rate is 100%.

3.12 Related party transaction compliance

The Group has a significant number of intra-group transactions. Group's entities are operating in the IT distribution/whosale industry and operate as distributors, wholesalers and limited risk wholesalers. Being present in various jurisdictions, Group's entities must comply with respective country's tax legislation and rulings. In order to meet the requirements of different jurisdictions, pricing models are evaluated on a regular basis for compliance.

3.13 Goodwill impairment

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 14 and note 22 for the newly acquired Companies.

4 Changes in accounting standards

4.1 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the by the AS ELKO GRUPA as of 1 January 2020:

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. Management has assessed revision of Framework and concluded that it does not have any impact on Group's financial statement.

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity 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.
  There was no any acquizitions on or after 1 January 2020.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management has assessed the amendment and concluded that it does not have any impact on Group's financial statement.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). Management has assessed the amendment and concluded that it does not have any impact on Group's financial statement, as it does not apply hedge accounting.

B) Standards issued but not yet effective and not early adopted

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed the amendment and concluded that it does not have any impact on Group's financial statement, as Group does not have any investments in Associate or Joint Venture.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has not assessed the impact of these amendments yet.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU. Management has not made an assessment yet.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments):**
The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU. Management has not made an assessment yet.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
    - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments have not yet been endorsed by the EU. Management has assessed the amendment and concluded that it does not have any impact on Group's financial statement.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**

  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

  Management has assessed the amendment and concluded that it does not have any impact on Group's financial statement, as no such Concessions were granted.

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

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

5 Financial risk management objectives and policies

5.1 Financial risk factors

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

Risk management is carried out by the finance management of the Group both under policies approved and separate decisions made by the Board of Directors. It identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

5.1.1 Market risk

Geopolitical risk

Significant part of the Group revenues are generated from sales to Russia and Ukraine (99% of Sales to CIS region are covered by Russian and Ukrainian subsidiaries).

Political situation in Ukraine has remained stable throughout the year, which allowed for more stable economy. Despite the significant influence of Covid-19 lock down in first and second quarter of 2020, Ukrainian economy, with the help of internal resources, has managed to recover quite well during the last two quartes recovering from 11.4% year-of-year GDP drop as of Q2 to drop of only 3.5% as of 31.12.2020.
UAH/USD rate stayed in the range of 24-28 with mean of 27.

In 2020 economy of Russia was still under preasure due to unstable and low oil prices and its relationship with USA, especially in the light if new president election. All these factors triggered voulatility of Russian rouble throughout the year. Rouble voulatiled in the range of 74-80 with the mean of 74. Besides above mentioned, economy was disturbed by limitations introduced as a response to Covid-19. As a result, Russia's GDP shrank 3.1 % in 2020, in comparison to 2019, but managed to stay above the central bank projection of a decline of 3.9%.

As of March 2021 RUB has gained its power and reached value of 74 rouble to dollar.
Considering all above mentioned, Group has implemented risk mitigation actions. To mitigate foreign currency translation risks the Group is purchasing the financial derivatives. Management is closely monitoring economic situation and developments in East European region.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the Russian rouble, Ukrainian hryvna and Euro currencies changes towards the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The purchase of goods from vendors is predominantly done in US dollars. The sales from the Parent Company to subsidiaries are done in US dollars. The sales to customers are carried out by the subsidiaries in the respective local currencies, except for ELKO Trading Switzerland AG and Elko Trading Malta Limited, whose sales are done mostly in US dollars. Although the subsidiaries carry out the sales in the local currencies, the prices in the market tend to follow the purchasing currency i.e. US dollars, ELKO Trading Switzerland and Elko Trading Malta Limited sales in US dollars and its significant weight in the Group's sales result in the fact, that trade payables and receivables have very similar structure in terms of currency composition (Notes 18 and 23).

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk in the amount of USD 95,450 thousand or EUR 77,785 thousand (2019: USD 64,997 thousand or EUR 57,858 thousand).

To mitigate foreign currency translation risks the Group is purchasing financial derivatives. The financial derivatives are mainly bought to mitigate risks from USD/RUB, USD/EUR and USD/UAH currency pair fluctuations.

5.1.1 Market risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change of the US dollar exchange rate to other currencies used by the Group, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of monetary assets, liabilities and translation of equities in subsidiaries). Considering that Group has hedged its foreign currency exchange risks, actual forecasted risk exposure is close to 0.

Increase / decrease in US dollar rate to EUR	Effect on profit USD ('000)	Effect on equity USD ('000)
2020		
+10%	(3,817)	(180)
-10%	3,817	180
2019		
+10%	(2,150)	385
-10%	2,150	(385)

Increase / decrease in US dollar rate to EUR	Effect on profit EUR ('000)	Effect on equity EUR ('000)
2020		
+10%	(3,343)	(147)
-10%	3,343	147
2019		
+10%	(1,920)	343
-10%	1,920	(343)

Increase / decrease in US dollar rate to UAH	Effect on profit USD ('000)	Effect on equity USD ('000)
2020		
+10%	(2,951)	(2,951)
-10%	2,951	2,951
2019		
+10%	(2,532)	(2,532)
-10%	2,532	2,532

Increase / decrease in US dollar rate to UAH	Effect on profit EUR ('000)	Effect on equity EUR ('000)
2020		
+10%	(2,636)	(2,636)
-10%	2,636	2,636
2019		
+10%	(2,262)	(2,262)
-10%	2,262	2,262

Increase / decrease in US dollar rate to RUB	Effect on profit USD ('000)	Effect on equity USD ('000)

5.1.1 Market risk (continued)

+15%	(6,007)	(6,007)
-15%	6,007	6,007
2019		
+15%	(11,199)	(11,199)
-15%	11,199	11,199

Increase / decrease in US dollar rate to RUB	**Effect on profit EUR ('000)**	**Effect on equity EUR ('000)**
2020		
+15%	(5,366)	(5,366)
-15%	5,366	5,366
2019		
+15%	(10,004)	(10,004)
-15%	10,004	10,004

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's current borrowings to finance a part of its working capital needs, which exposes the Group's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. During 2020, the Group's borrowings at variable rates were predominantly denominated in US dollars, Russian roubles and Euro (Note 22).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings.

	Increase / decrease in basis points	**Effect on profit before tax (USD'000)**
2020	+10	(191)
	-10	191
2019	+10	(115)
	-10	115

	Increase / decrease in basis points	**Effect on profit before tax (EUR'000)**
2020	+10	(156)
	-10	156
2019	+10	(102)
	-10	102

5.1.2 Credit risk

Credit risk is managed on a Group basis by implementing centralised procedures and control. Credit risk arises from the credit exposure to outstanding trade receivables and other receivables (Note 18). The Group minimizes these risks through credit risk insurance and conservative credit policy. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilisation of credit limits is regularly monitored.

5.1.2 Credit risk (continued)

The maximum exposure as at 31 December 2020 is USD 322,213 thousand or EUR 262,581 thousand (2019: USD 269,679 or EUR 240,056 thousand).

There is no single end-customer or group of end-customers that exceed 10% of total Group sales.

As at 31 December, 2020 the Group's credit risk exposure to its cooperation partners in CIS region was 41 % of total trade receivables (2019 22%).

Top 10 end-customers constitute approximately 19.7% of total sales (2019: 23%).

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, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than 180 days and are not subject to enforcement activity. The Group does not hold collateral as security. The credit insurance is considered integral part of trade receivables and considered in the calculation of impairment.

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

31 December 2020							**Trade receivables**		
			Days past due						
Contract assets USD000	**Current**	**<30 days**	**30–60 days**	**61–90 days**	**91- 120 days**	**121-150 days**	**151-180 days**	**>181 days**	**Total**
Expected credit loss rate	0.2%	0.4%	1.4%	2.3%	3.8%	0.1%	52.5%	16.9%	**0.7%**
Estimated total gross carrying amount at default	198,416	33,369	4,517	6,367	1,984	2,357	114	5,462	252,585
Expected credit loss	346	118	64	145	75	2	60	925	**1,735***

31 December 2020							**Trade receivables**		
			Days past due						
Contract assets EUR000	**Current**	**<30 days**	**30–60 days**	**61–90 days**	**91- 120 days**	**121-150 days**	**151-180 days**	**>181 days**	**Total**
Expected credit loss rate	0.2%	0.4%	1.4%	2.3%	3.8%	0.1%	52.5%	16.9%	**0.7%**
Estimated total gross carrying amount at default	161,695	27,193	3,681	5,188	1,617	1,921	93	4,451	205,839
Expected credit loss	282	96	52	118	61	2	49	754	**1,414**

5.1.2 Credit risk (continued)

*In addition individual provision for debtor with residual balance of USD 119 thousand (EUR 97 thousand) was made for the whole residual debt amount. Respectivelly, total provisions as of 31.12.2020 are amounted to USD 1,854 million (EUR 1,511 million).

31 December 2019							**Trade receivables**		
			Days past due						
Contract assets USD000	**Current**	**<30 days**	**30–60 days**	**61–90 days**	**91- 120 days**	**121-150 days**	**151-180 days**	**>181 days**	**Total**
Expected credit loss rate	0.1%	0.3%	2.2%	13.3%	14.6%	1.6%	19.5%	17.5%	**0.7%**
Estimated total gross carrying amount at default	166,549	53,574	2,025	893	1,561	1,939	412	4,280	**231,233**
Expected credit loss	185	164	45	119	228	32	80	747	**1,600***

31 December 2019							**Trade receivables**		
			Days past due						
Contract assets EUR000	**Current**	**<30 days**	**30–60 days**	**61–90 days**	**91- 120 days**	**121-150 days**	**151-180 days**	**>181 days**	**Total**
Expected credit loss rate	0.1%	0.3%	2.2%	13.3%	14.6%	1.6%	19.5%	17.5%	**0.7%**
Estimated total gross carrying amount at default	148,255	47,689	1,802	795	1,389	1,726	367	3,810	**205,833**
Expected credit loss	164	146	40	106	203	28	72	665	**1,424**

*In addition individual provision for debtor with residual balance of USD 321 thousand (EUR 286 thousand) was made for the whole residual debt amount. Respectivelly, total provisions as of 31.12.2019 are amounted to USD 1,921 million (EUR 1,710 million).

5.1.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 based on contractual undiscounted payments in USD'000:

Year ended 31/12/2020	**On demand USD'000**	**< 3 months USD'000**	**3 to 12 months USD'000**	**1 to 15 years USD'000**	**Total USD'000**
Non-current borrowings	-	-	-	46,969	46,969
Current borrowings	-	-	153,938	-	153,938
Trade and other payables	-	267,353	-	-	267,353
Derivative financial instruments	-	103	-	-	103
Total financial liabilities	**-**	**267,456**	**153,938**	**46,969**	**468,363**

5.1.3. Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted payments in USD'000:

Year ended 31/12/2019	On demand USD'000	< 3 months USD'000	3 to 12 months USD'000	1 to 15 years USD'000	Total USD'000
Non-current borrowings	-	-	-	42,173	42,173
Current borrowings	-	-	139,107	-	139,107
Trade and other payables	-	232,744	-	-	232,744
Derivative financial instruments	-	7	-	-	7
Total financial liabilities	**-**	**232,751**	**139,107**	**42,173**	**414,031**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 based on contractual undiscounted payments in EUR'000:

Year ended 31/12/2020	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 15 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	38,277	38,277
Current borrowings	-	-	125,448	-	125,448
Trade and other payables	-	217,874	-	-	217,874
Derivative financial instruments	-	84	-	-	84
Total financial liabilities	**-**	**217,958**	**125,448**	**38,277**	**381,683**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted payments in EUR'000:

Year ended 31/12/2019	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 15 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	37,541	37,541
Current borrowings	-	-	123,827	-	123,827
Trade and other payables	-	207,178	-	-	207,178
Derivative financial instruments	-	6	-	-	6
Total financial liabilities	**-**	**207,184**	**123,827**	**37,541**	**368,552**

5.1.4 Legislative risk

The Group has used, and continues to use, a variety of third-party entities in which it does not hold any direct or indirect equity interest to facilitate the import of products into Russia and Ukraine. In the Eastern European countries the tax legislation and rulings are still subject to frequent change, and consequently are not as stable as the tax practices in most of the Western world countries. In the event that Russian and/or Ukrainian tax authorities choose to take a more aggressive position in their interpretation and enforcement of tax legislation, the Group might be held liable in case of a failure of a third party to comply with the interpretations of the authorities in Russia and/or Ukraine. Any estimate of a likelihood of any liability arising as a result of the Russian or Ukrainian tax enforcement, its effect on the financial position of the Group or the maximum amount cannot be reasonably assessed. Historically no such claims have arisen.

5.2. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the financial years presented.

According to legal requirements the board has to ask for shareholder meeting to deal with the capital issue if the equity of the parent company falls below 50% of share capital.

	31.12.2020.	**31.12.2019.**	**31.12.2020.**	**31.12.2019.**
	USD '000	**USD '000**	**EUR '000**	**EUR '000**
Parent company financials				
Share capital	11,251	11,114	9,901	9,785
Total equity	36,487	26,872	29,734	23,920
Total equity/ Share capital	**324%**	**242%**	**300%**	**244%**

According to loan agreements Group is in compliance with all covenants.

The Group monitors capital using the following ratio:

	31.12.2020.	**31.12.2019.**	**31.12.2020.**	**31.12.2019.**
	USD '000	**USD '000**	**EUR '000**	**EUR '000**
Consolidated financials				
Net Debt*	155,369	151,952	126,615	135,261
Total equity	119,092	85,950	97,051	76,508
Net Liabilities/ Equity	**1.30**	**0.96**	**1.30**	**1.77**

* Net debt is equal toall borrowings less cash and deposits.

6 Sale of goods and services

	2020 USD '000	2019 USD '000	2020 EUR '000	2019 EUR '000
Components	571,456	485,767	500,676	433,916
Personal Computing	300,536	291,837	263,312	260,686
Mobile Communications	581,472	532,837	509,453	475,962
Home & Office Electronics, Peripherals	195,103	129,914	170,938	116,047
Software	60,072	50,836	52,631	45,410
Solutions & Value Added Services	118,976	101,672	104,240	90,819
TV Sets	140,357	126,148	122,973	112,683
Small Domestic Appliances & Other	90,898	15,063	79,639	13,455
Major Domestic Appliances	110,993	126,149	97,246	112,684
Built-In Appliances	15,428	22,594	13,517	20,182
	2,185,291	**1,882,817**	**1,914,625**	**1,681,844**

As at 31.12.2020 there are no remaining performance obligations in existing contracts.

7 Cost of sales, Selling and distribution costs and Administrative expenses

	2020 USD '000	2019 USD '000	2020 EUR '000	2019 EUR '000
Trade inventory sold	2,055,358	1,783,148	1,800,787	1,592,814
Employee benefit expense (Note 10)	28,289	26,011	24,786	23,234
Rent and office maintenance expenses (Note 15.2)	2,360	2,553	2,067	2,281
Warehousing expenses	3,779	4,440	3,311	3,965
Transportation expenses	7,536	5,605	6,603	5,007
Advertising costs	514	1,120	451	1,000
Professional fees	3,121	3,112	2,734	2,780
Depreciation and amortisation charges (Notes 14, 15.1)	8,234	7,942	7,214	7,095
Other expenses	11,563	12,147	10,131	10,850
	2,120,754	**1,846,078**	**1,858,084**	**1,649,026**

8 Other income/expenses

8.1 Other operating income

	2020 USD '000	2019 USD '000	2020 EUR '000	2019 EUR '000
Income from services provided*	2,879	1,841	2,522	1,644
Gain from written-off liabilities	99	6,933	87	6,193
Gain from sale of property, plant and equipment	46	92	41	82
Net gain from foreign exchange fluctuations	-	3,259	-	2,912
Other income**	10,037	33	8,794	29
	13,061	**12,158**	**11,444**	**10,860**

* In 2020 has concluded sub-lease agreement for its premises and included income USD 398 thousand (EUR 349 thousand) to Income from service provided above. For more details of sub-lease see Note 15.2.
** In 2020 reversed TD Absolut LLC net asset corretion- accruals for tax risks reduced due to tax audit finalization.

8.2 Other operating expenses

	2020 USD'000	2019 USD '000	2020 EUR '000	2019 EUR '000
Allowance for ECL (Note 18)	(360)	2,193	(316)	1,959
Provisions for old stock (Note 17)	(11,246)	(11,077)	(9,853)	(9,895)
Net loss from foreign exchange fluctuations*	(1,459)	-	(1,278)	-
Net loss on finansial instruments	-	(679)	-	(607)
Other expenses	(1,513)	(106)	(1,325)	(94)
	(14,578)	**(9,669)**	**(12,772)**	**(8,637)**

*In 2020 both results from foreign exchange and derivative instruments were netted out in position Net loss from foreign exchange fluctuations.

9 Finance income and costs

	2020	2019	2020	2019
Interest expense:	**USD '000**	**USD '000**	**EUR '000**	**EUR '000**
– Bank and bond borrowings	(15,273)	(12,211)	(13,381)	(10,907)
– Other interests *	(750)	(172)	(657)	(154)
Finance costs	**(16,023)**	**(12,383)**	**(14,038)**	**(11,061)**
Finance income:				
– Interest income on short-term bank deposits	114	140	100	125
– Penalties and other interest income	369	517	323	462
Finance income	**483**	**657**	**423**	**587**
Net finance costs	**(15,540)**	**(11,727)**	**(13,615)**	**(10,475)**

*In 2020 increased other penalties payable to business partners.

10 Employee benefit expense

	2020	2019	2020	2019
	USD '000	**USD '000**	**EUR '000**	**EUR '000**
Wages and salaries	20,557	19,168	18,012	17,121
Social security costs	5,933	5,399	5,198	4,823
Other employment benefits	1,799	1,444	1,576	1,290
	28,289	**26,011**	**24,786**	**23,234**

Employees involved in the sales functions are subject to a partial variable remuneration based on the sales performance.
All personnel expenses have been charged in statement of comprehensive income and are shown in administrative expenses.

11 Income tax

Current corporate income tax

	Latvia	Lithuania/ Poland	Estonia/Russia/K azakhstan	Ukraine	Slovakia	Slovenia/Czech Republic	Cyprus	Sweden	Romania	Switzerland	Malta
2020	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Profit/ (loss) before income tax	10,755	84	18,735	33	11,278	2,555	(1,876)	3,629	93	1,352	10,689
Income tax rate	25%	15%	20%	18%	21%	19.00%	13%	21%	16%	14%	35%
Tax calculated at domestic tax rates applicable to profits in respective countries	2,689	10	3,748	6	2,368	484	(234)	777	-	189	3,741
Income tax effect from profit taxable with 0% rate	(2,688)	-	(6)	-	-	-	-	-	-	-	-
Utilization of previously unrecognized tax loss	(1)	(6)	-	-	(30)	-	-	1	-	(181)	-
Permanent differences:	-	-	-	-	-	-	-	-	-	-	-
Non-operating expense	18	-	685	-	201	28	-	941	-	-	-
Other	-	(1)	368	-	(153)	(14)	235	(198)	-	(7)	-
Income tax on dividends	-	-	-	-	-	-	-	-	-	-	-
Actual income tax for the reporting year:	18	3	4,795	6	2,387	498	1	1,521	-	1	3,741
Effective income tax rate	25%	15%	0%	18%	21%	19%	13%	22%	16%	9%	35%
	-	-	-	-	-	-	-	-	-	-	-
	-		-	-							
	18	- 3	4,795	6	- 2,387	- 498	- 1	- 1,521	-	- 1	- 3,741
2019	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Profit/ (loss) before income tax	1,533	54	9,266	3,940	7,916	937	9,699	1,126	(231)	1,453	1,869
Income tax rate	25%	15%	20%	18%	21%	19%	13%	22%	16%	9%	35%
Tax calculated at domestic tax rates applicable to profits in respective countries	357	8	1,911	709	1,733	178	1,212	241	-	203	654
Income tax effect from profit taxable with 0% rate	(357)	-	(5)	-	-	-	-	-	-	-	-
Utilization of previously unrecognized tax loss	-	(6)	(2)	(937)	-	-	-	-	-	(129)	-
Permanent differences:	-	-	-	-	-	-	-	-	-	-	-
Non-operating expense	18	3	333	-	224	28	-	(62)	-	-	-
Other	-	-	2,035	331	(52)	(6)	(1,190)	295	-	(18)	-
Income tax withheld on dividends	-	-	-	-	-	-	-	-	-	-	-
Actual income tax for the reporting year:	**18**	**5**	**4,272**	**103**	**1,906**	**199**	**22**	**474**	**-**	**56**	**654**
Reversal of deferred tax	-	-	-	-	-	-	-	-	-	-	-
Corporate income tax charged to the statement of profit or loss:	(18)	(5)	(4,272)	(103)	(1,906)	(199)	(22)	(474)	-	(56)	(654)
Effective income tax rate	25%	15%	0%	18%	21%	19%	13%	22%	16%	9%	35%

11 Income tax (continued)

2020	Latvia EUR'000	Lithuania/ Poland EUR'000	Estonia/Russia/Kazakhstan EUR'000	Ukraine EUR'000	Slovakia EUR'000	Slovenia/Czech Republic EUR'000	Cyprus EUR'000	Sweden EUR'000	Romania EUR'000	Switzerland EUR'000	Malta EUR'000
Profit/ (loss) before income tax	9,423	74	16,415	29	9,881	2,239	(1,644)	3,180	82	1,184	9,366
Income tax rate	25%	15%	20%	18%	21%	19.00%	13%	21%	16%	14%	35%
Tax calculated at domestic tax rates applicable to profits in respective countries	2,356	9	3,284	5	2,075	424	(205)	680	-	166	3,278
Income tax effect from profit taxable with 0% rate	(2,355)	-	(5)	-	-	-	-	-	-	-	-
Utilization of previously unrecognized tax loss	(1)	(5)	-	-	(26)	-	-	-	-	(159)	-
Permanent differences:	-	-	-	-	-	-	-	-	-	-	-
Non-operating expense	16	-	600	-	176	25	-	825	-	-	-
Other	-	(1)	322	-	(134)	(12)	205	(173)	-	(6)	-
Income tax on dividends	-	-	-	-	-	-	-	-	-	-	-
Actual income tax for the reporting year:	16	2	4,200	5	2,091	437	1	1,333	-	1	3,278
Effective income tax rate	25%	15%	0%	18%	21%	19%	13%	22%	16%	9%	35%
*applicable to distributed / undistributed profits	-	-	-	-	-	-	-	-	-	-	-
	- 16	- 2	- 4,200	- 5	- 2,091	- 437	- 1	- 1,333	-	- 1	- 3,278
2019	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Profit/ (loss) before income tax	1,370	48	8,277	3,520	7,071	837	8,664	1,005	(206)	1,298	1,669
Income tax rate	25%	15%	20%	18%	21%	19%	13%	22%	16%	9%	35%
Tax calculated at domestic tax rates applicable to profits in respective countries	319	7	1,707	634	1,548	159	1,083	215	-	182	584
Income tax effect from profit taxable with 0% rate	(319)	-	(5)	-	-	-	-	-	-	-	-
Utilization of previously unrecognized tax loss	-	(5)	(2)	(837)	-	-	-	-	-	(115)	-
Permanent differences:	-	-	-	-	-	-	-	-	-	-	-
Non-operating expense	16	3	297	-	200	25	-	(55)	-	-	-
Other	-	-	1,817	295	(46)	(6)	(1,063)	264	-	(16)	-
Income tax withheld on dividends	-	-	-	-	-	-	-	-	-	-	-
Actual income tax for the reporting year:	**16**	**4**	**3,815**	**92**	**1,703**	**178**	**20**	**424**	**-**	**50**	**584**
Reversal of deferred tax	-	-	-	-	-	-	-	-	-	-	-
Corporate income tax charged to the statement of profit or loss:	16	4	3,815	92	1,703	178	20	424	-	50	584
Effective income tax rate	25%	15%	0%	18%	21%	19%	13%	22%	16%	9%	35%

12 Earnings per share

The Group has no dilutive potential shares therefore diluted earnings per share are equal to basic earnings per share.

In 2020 share capital was increased and the share capital shall consist of: 9,785 thousands dematerialized ordinary registered shares with vouting rights, rights to liquidation quota and rights to receive dividends, and 116 thousands dematerialized employee registered shares without vouting rights and without rights receive liquidation quota, but with rights to receive dividends.

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

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2020 USD '000	2019 USD '000	2020 EUR '000	2019 EUR '000
Profit attributable to equity holders of the Parent Company	29,119	16,500	25,512	14,739
Weighted average number of ordinary and employee shares in issue (thousand)	9,901	9,785	9,901	9,785
Basic earnings per share (EUR/USD per share)	2.94	1.69	2.58	1.51

13 Dividends per share

During the year the Company has paid out dividends on prior year retained earnings in amount of USD 4,000 thousand or EUR 3,352 thousand (USD 0.41 or EUR 0.34 per share) (prior year 2019 USD 40,551 thousand or EUR 36,410 thousand).
Dividends amount paid in cash during the year 2020 was USD 6 thousand (EUR 5 thousand). Dividends amount of USD 4,000 thousand (EUR 3,352 thousand) was offsetted through loan from shareholders (see note 22).

14 Intangible assets

	Software		Goodwill		Total	
At 31 December 2018	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**
Cost	2,317	1,973	1,768	1,544	4,085	3,517
Accumulated amortisation	(1,349)	(1,127)	-	-	(1,349)	(1,127)
Net book amount at 31 December 2018	**968**	**846**	**1,768**	**1,544**	**2,736**	**2,390**
2019						
Opening net book amount	968	846	1,768	1,544	2,736	2,390
Exchange differences	64	72	(165)	(117)	(101)	(45)
Additions	357	317	-	-	357	317
Disposals/reclasification	(31)	(27)	-	-	(31)	(27)
Changes in consolidated Group (cost)	(22)	(20)	-	-	(22)	(20)
Changes in consolidated Group (accumulated amortisation)	(14)	(12)	-	-	(14)	(12)
Amortisation charge	(228)	(203)	-	-	(228)	(203)
Closing net book amount at 31 December 2019	1,094	973	1,603	1,427	2,697	2,400
At 31 December 2019						
Cost	2,685	2,315	1,603	1,427	4,288	3,742
Accumulated amortisation	(1,591)	(1,342)	-	-	(1,591)	(1,342)
At 31 December 2019	**1,094**	**973**	**1,603**	**1,427**	**2,697**	**2,400**
2020						
Opening net book amount	1,094	973	1,603	1,427	2,697	2,400
Exchange differences	(422)	(425)	220	59	(202)	(366)
Additions	927	755	-	-	927	755
Disposals/reclasification	17	14	-	-	17	14
Changes in consolidated Group (cost)	385	314	-	-	385	314
Changes in consolidated Group (accumulated amortisation)	107	87	-	-	107	87
Amortisation charge	(352)	(287)	-	-	(352)	(287)
Closing net book amount at 31 December 2020	1,756	1,431	1,823	1,486	3,579	2,917
At 31 December 2020						
Cost	3,592	2,973	1,823	1,486	5,415	4,459
Accumulated amortisation	(1,836)	(1,542)	-	-	(1,836)	(1,542)
Net book amount at 31 December 2020	**1,756**	**1,431**	**1,823**	**1,486**	**3,579**	**2,917**

Amortisation expenses of intangible assets in the amount of USD 352 thousand or EUR 287 thousand (2019: USD 228 thousand or EUR 203 thousand) have been charged in statement of profit or loss and are shown in administrative expenses. The cost of fully amortised intangible assets at 31 December 2020 was USD 630 thousand or EUR 513 thousand (2019: USD 1,113 thousand or EUR 991 thousand).

All intangible assets have been pledged to secure bank credit lines (Note 22).

15 Property, plant and equipment and leases

15.1 Property, plant and equipment

	Property		Leasehold improve-ments		Communication and computer engineering		Other fixed assets		Total	
	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR
At 31 December 2018										
Cost	4615	3877	297	252	3865	3274	6916	5847	15693	13250
Accumulated depreciation	(4,615)	(3,877)	(184)	(153)	(2,716)	(2,271)	(3,662)	(3,005)	(11,177)	(9,306)
Net book amount at 31 December 2018	**-**	**-**	**113**	**99**	**1148.9**	**1003**	**3254**	**2842**	**4515.9**	**3944**
2019										
Opening net book amount	-	-	113	99	1,149	1,003	3,254	2,842	4,516	3,944
Exchange differences			-	1	103	111	43	93	146	205
Additions			140	125	850	757	1,765	1,571	2,755	2,453
Disposals at cost/reclasifications			(1)	(1)	(404)	(360)	94	84	(311)	(277)
Changes in consolidated Group (cost)	-	-	(1)	(1)	26	23	(346)	(308)	(321)	(286)
Changes in consolidated Group (accumulated depreciation)	-	-	(8)	(7)	14	13	256	228	262	234
Depreciation charge	-	-	(36)	(32)	(485)	(432)	(1,119)	(996)	(1,640)	(1,460)
Closing net book amount at 31 December 2019	**-**	**-**	**207**	**184**	**1,253**	**1,115**	**3,947**	**3,514**	**5,407**	**4,813**
At 31 December 2019										
Cost	4,615	3,877	435	375	4,337	3,694	8,429	7,194	17,816	15,140
Accumulated depreciation	(4,615)	(3,877)	(228)	(191)	(3,084)	(2,579)	(4,482)	(3,680)	(12,409)	(10,327)
Net book amount at 31 December 2019	**-**	**-**	**207**	**184**	**1,253**	**1,115**	**3,947**	**3,514**	**5,407**	**4,813**
2020										
Opening net book amount	-	-	207	184	1,253	1,115	3,947	3,514	5,407	4,813
Exchange differences			1	(15)	(182)	(242)	(210)	(468)	(391)	(725)
Additions			54	44	1262	1,028	1,804	1,470	3,120	2,542
Disposals at cost/reclasifications			17	14	(815)	(664)	(35)	(29)	(833)	(679)
Changes in consolidated Group (cost)	-	-	18	15	145	118	282	230	445	363
Changes in consolidated Group (accumulated depreciation)	-	-	(15)	(12)	(104)	(85)	140	114	21	17
Depreciation charge	-	-	(74)	(60)	(523)	(426)	(1,039)	(847)	(1,636)	(1,333)
Closing net book amount 31 December 2020	**-**	**-**	**208**	**170**	**1,036**	**844**	**4,889**	**3,984**	**6,133**	**4,998**
At 31 December 2020										
Cost	4,615	3,877	524	448	4,929	4,176	10,480	8,865	20,548	17,366
Accumulated depreciation	(4,615)	(3,877)	(316)	(278)	(3,893)	(3,332)	(5,591)	(4,881)	(14,415)	(12,368)
Net book amount at 31 December 2020	**-**	**-**	**208**	**170**	**1,036**	**844**	**4,889**	**3,984**	**6,133**	**4,998**

15.1 Property, plant and equipment (continued)

Depreciation expenses of tangible assets in the amount of USD 1,636 thousand or EUR 1,333 thousand (2019: USD 1,640 thousand or EUR 1,460 thousand) have been charged in statement of profit or loss and are shown in administrative expenses.

The cost of fully depreciated property, plant and equipment at 31 December 2020 was USD 4,124 thousand or EUR 3,360 thousand (2019: USD 3,402 thousand or EUR 3,029 thousand).

All tangible assets have been pledged to secure bank credit lines (Note 22).

15.2 Leases

Group as a lessee
The Group has lease contracts for various premises – office space, warehouse and stores with wide range of lease terms between 2-14 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 and subleasing the leased assets, except office space of Group's Parent company, where sub-lease is allowed and executed.
There are several lease contracts that include extension and termination options, which are further discussed below.
The Group also has certain leases of premises with lease terms of 12 months or less and with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Premises	**Total**	**Premises**	**Total**
	USD '000	**USD '000**	**EUR '000**	**EUR '000**
As at 1 January 2019	**30,770**	**30,770**	**27,390**	**27,390**
Additions	2,318	2,318	2,064	2,064
Depreciation expense	(6,084)	(6,084)	(5,435)	(5,435)
Exchange difference	(22)	(22)	-	-
As at 31 December 2019	**26,982**	**26,982**	**24,019**	**24,019**
As at 1 January 2020	**26,982**	**26,982**	**24,019**	**24,019**
Additions	9,783	9,783	7,826	7,826
Depreciation expense	(6,245)	(6,245)	(5,415)	(5,415)
Exchange difference	1,912	1,912		-
As at 31 December 2020	**32,432**	**32,432**	**26,430**	**26,430**

	Premises	**Total**	**Premises**	**Total**
	USD '000	**USD '000**	**EUR '000**	**EUR '000**
As at 1 January 2019	**30,770**	**30,770**	**27,390**	**27,390**
Additions	2,318	2,318	2,064	2,064
Depreciation expense	(6,084)	(6,084)	(5,435)	(5,435)
Exchange difference	(22)	(22)	-	-
As at 31 December 2019	**26,982**	**26,982**	**24,019**	**24,019**

15.2 Leases (continued)

As at 1 January 2020	**26,982**	**26,982**	**24,019**	**24,019**
Additions	9,783	9,783	7,826	7,826
Depreciation expense	(6,245)	(6,245)	(5,415)	(5,415)
Exchange difference	1,912	1,912		-
As at 31 December 2020	**32,432**	**32,432**	**26,430**	**26,430**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2019	**2019**
	USD '000	**EUR '000**
As at 1 January 2019	**30,770**	**27,390**
Additions	2,318	2,063
Accretion of interest	1,428	1,276
Payments	(7,022)	(6,250)
Exchange difference	5	(1)
As at 31 December 2019*	**27,499**	**24,478**

	2020	**2020**
	USD '000	**EUR '000**
As at 1 January 2020	**27,499**	**24,478**
Additions	9,783	7,974
Accretion of interest	1,472	1,274
Payments	(7,920)	(6,455)
Exchange difference	2,581	(40)
As at 31 December 2020*	**33,415**	**27,231**

* The following incremental borrowing rates are used in lease laibility calculation:
ELKO Grupa AS – 2.5%
Gandalf Distribution – 2%
ELKOTech Romania SRL – 4.5%
ELKO Rus LTD, TD Absolut Llc – 10%
ELKO Ukraine LLC – 13%
WESTech spol. s r.o., WESTech CZ s r.o., Arašid spol. s r.o. – 2.34%
ELKOTEX d.o.o. – 1%

The maturity analysis of lease liabilities:

	USD '000	**EUR '000**
Non-current liabilities		
Lease liabilities	21,111	18,792
Current liabilities		
Lease liabilities	6,388	5,686
As at 31 December 2019	**27,499**	**24,478**
	USD '000	**EUR '000**
Non-current liabilities		
Lease liabilities	26,952	21,964
Current liabilities		
Lease liabilities	6,464	5,267
As at 31 December 2020	**33,416**	**27,231**

15.2 Leases (continued)

The following are the amounts recognised in profit or loss:

	2020 USD '000	2020 EUR '000	2019 USD '000	2019 EUR '000
Depreciation expense of right-of-use assets	6,245	5,415	6,084	5,435
Interest expense on lease liabilities	1,472	1,274	1,428	1,276
Expense relating to short-term and low value leases (included in cost of sales)	303	337	430	384
Total amount recognised in profit or loss	**8,020**	**7,026**	**7,942**	**7,095**

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3).

Rent agreement with Lessor's option to terminate agreement within 1 year time with no subtantial penalties are considered by the Group as short term agreements. The Group does not have any agreements, where it plans not to execute extention option and execute termination option of rent agreement.

Group as a lessor
The Group has concluded several sub-lease (operating leases) agreements for its premises. Sub-lease agreements are with a different terms from 1 to 14 years. Rental income recognised by the Group during the year is USD 348 thousand (EUR 305 thousand) (2019: USD 352 thousand (EUR 315 thousand)).

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2020 USD '000	2020 EUR '000	2019 USD '000	2019 EUR '000
Within one year	275	224	300	267
After one year but not more than five years	888	723	1,094	974
More than five years	988	805	1,035	922
	2,151	**1,752**	**2,429**	**2,163**

16 Non current loans

	31.12.2020 USD '000	31.12.2019 USD '000	31.12.2020 EUR '000	31.12.2019 EUR '000
Swiss CZ	282	138	230	123
ELBATEX D.O.O.	160	-	130	-
	442	**138**	**360**	**123**

17 Inventories

	31.12.2020. USD '000	31.12.2019. USD '000	31.12.2020. EUR '000	31.12.2019. EUR '000
Trade inventory	160,642	140,917	130,912	125,437
Trade inventory in transit	36,863	36,893	30,041	32,840
Prepayments for trade inventory	7,277	2,163	5,930	1,926
Less - Provisions for inventory on*:	(16,960)	(11,077)	(13,821)	(9,860)
Total inventories at the lower of cost and net realisable value	**187,822**	**168,896**	**153,062**	**150,343**

*Due to slow down on CIS market at year end and several canceled projects Group had increased amount of slow moving items as at 31 December 2020, and considering events after the reporting period described in Note 29, management has made a decision to make provisions for these items.

Estimates of net realisable value of inventory are based on the most reliable evidence available at the time the estimates are made. As such estimates are continuously evaluated; it is common that in the normal course of business, circumstances that previously caused inventories to be written down below cost no longer exist resulting in reversals of write-downs.

The cost of inventories recognised as expense and included in cost of sales amounted to USD 2,401,929 thousand or EUR 2,104,432 thousand (2019: USD 2,050,881 thousand or EUR 1,831,969 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group USD 36,863 thousand (2019: 36,893 thousand) or EUR 30,041 thousand (2019: EUR 32,840 thousand) and trade inventory in transit have been pledged to secure bank credit lines (Note 22).

Of the total inventories consignment inventories as at 31 December 2020 were USD 16,538 thousand or EUR 13,748 thousand (2019: USD 23,061 thousand or EUR 20,528 thousand).
During 2020, USD 3 061 thousand or EUR 2 682 thousand (2019: USD 77 thousand or EUR 70 thousand) was recognised as an expense for inventories carried at net realisable value.

18 Trade and other receivables and prepayments

	31.12.2020. USD '000	31.12.2019. USD '000	31.12.2020. EUR '000	31.12.2019. EUR '000
Trade receivables	252,585	231,233	205,840	205,833
Less: allowance for impairment of trade receivables	(1,854)	(1,921)	(1,511)	(1,710)
Trade receivables – net	**250,731**	**229,312**	**204,329**	**204,123**
Advances to suppliers	7,623	4,408	6,212	3,924
VAT receivable	26,954	18,178	21,964	16,182
Other debtors*	812	1,907	662	1,697
Custom prepayments	655	2,325	533	2,069
Debt on factoring	34,795	12,256	28,355	10,910
Other tax receivable in foreign countries	180	141	148	125
	321,750	**268,527**	**262,203**	**239,030**

*Other Debtors consist of prepayments to business partners and deposits.
All trade receivables have been pledged to secure bank credit lines (Note 22).
Trade receivables are non-interest bearing and are generally on 7-90 days' terms.

18 Trade and other receivables and prepayments (continued)

Movements in the allowance for impairment of trade receivables are as follows:

	2020 USD '000	2019 USD '000	2020 EUR '000	2019 EUR '000
At 1 January	1,921	3,821	1,710	3,337
Provision for expected crdit loss	360	575	294	513
Used allowances	(427)	(2,475)	(493)	(2,140)
At 31 December	**1,854**	**1,921**	**1,511**	**1,710**

The creation and release of allowance for impaired receivables have been included in other operating expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

19 Cash deposits, cash and cash equivalents

	31.12.2020. USD '000	31.12.2019. USD '000	31.12.2020. EUR '000	31.12.2019. EUR '000
Cash at banks and on hand	41,101	27,328	33,494	24,328
Deposits less than 3 months	2,633	-	2,146	-
Deposits more than 3 months	1,804	2,000	1,470	1,779
	45,538	**29,328**	**37,110**	**26,107**

All cash and cash deposits have been pledged to secure bank credit lines (Note 22) but the Group has unlimited access to these funds.

20 Issued capital and reserves

20.1 Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2019: 9,785 thousand shares) with a value of USD 1.1358 per share (2019: USD 1.1358 per share) and with value of EUR 1.00 per share (2019: EUR 1.00 per share) and 115.99 thousand (2019: 0 shares) personal non voting shares with value of USD 1.1358 per share and with value of EUR 1.00 per share (2019: EUR 0.00 per share). All issued shares are fully paid. There were no share options outstanding for any of the years presented. All issued shares were purchased by cash contribution.

20.2 Share Premium

During 2005 share capital was increased, attracting new shareholders. As a result of share capital increase and attraction of new shareholders, share premium reserve in the amount of USD 5,996 or EUR 4,974 thousand was created.

20.3 Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations. The main portion of translation reserve appeared due to the fact, that retained earnings are measured on transaction date exchange rate instead of closing rate.

21 Goodwill

Gandalf Distribution AB

On 29.08.2019 Company has executed its call option to purchase residual 15% of the shares of it's subsidiary Gandalf Distribution AB for SEK 6 238 578 (USD 670 873 or EUR 597 176). This transaction does not have any effect on Goodwill, as at the initial acquisition 100% of shareholding was recognized and whole amount of consideration was taken into account for Goodwill recognition.The Group acquired Gandalf Distribution AB because it significantly enlarges the range of products and Elko Group presence on the Nordic market.

Group has elected to measure non-controlling interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.The financial statements include the results of acquired companies from acquisition date till the end of reporting period.

Assets acquired and liabilities assumed.

The identifiable assets and liabilities of Gandalf Distribution AB as at the date of acquisition were:

	USD	EUR
ASSETS	**19,607**	**17,181**
NON CURRENT ASSETS	**73**	**64**
Intangible assets	6	5
Property plant and equipment	67	58
CURRENT ASSETS	**19,535**	**17,118**
Inventories	6,075	5,323
Trade debtors	12,047	10,556
Other debtors	976	855
Corporate income tax	277	243
Cash and cash equivalents	160	141
LIABILITIES	**16,491**	**14,450**
Interest-bearing loans and borrowings	376	330
Other financing	7,359	6,447
Trade accounts payable	5,883	5,155
Other current liabilities	2,740	2,401
Corporate income tax	133	117
Total identifiable net asstes	**3,116**	**2,731**
Goodwill arising on acquisition	1,759	1,541
Purchase consideration transferred	4,027	3,529

The goodwill of USD 1,759 thousand (EUR 1,536 thousand) comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Goodwill is allocated entirely to Gandalf Distribution AB business.
Due to the contractual terms imposed on acquisition, the customer list is not separable. Therefore, it does not meet the criteria for recognition as an intangible asset under IAS 38. None of the goodwill recognized is expected to be deductible for income tax purposes.

21 Goodwill (continued)

TD Absolut Llc
In June 2018 ELKO Group AS acquired 100% of shareholding in TD Absolut Llc. in order to diversify its product portfolio in Russia and introduce household appliance to Russian market. Assets and liabilities of the Company were measured at fair value. Purchase consideration transferred in amount of USD 1 957 377 (EUR 1 709 500) is very close to the Fair value of net assets; therefore, Goodwill had been considered to be insignificant and was not recognized in financial statements.
However, as at 31 December 2019 some account receivables, which had been considered as unrecoverable and for which provisions had been made, were recovered. As a result, initially calculated goodwill was reviewed and negative goodwill of USD 1 311 thousand (EUR 1 120 thousand) was recognized in Retained Earnings.

	Fair Value at acquisition, USD	Fair Value at acquisition, EUR	Restated Fair Value at acquisition, USD	Restated Fair Value at acquisition, EUR
Non current assets	499,518	426,664	499,518	426,664
Inventory	19,800,694	16,912,767	19,800,694	16,912,767
Trade receivables	30,395,393	25,962,231	31,707,562	27,082,697
TAX receivables	29,508	25,204	29,508	25,204
Other receivables	27,026	23,084	27,026	23,084
Cash	1,003,513	857,151	1,003,513	857,151
Long term loans	1,541,157	1,316,380	1,541,157	1,316,380
Short term loans	10,883,830	9,296,425	10,883,830	9,296,425
Trade payables	24,008,455	20,506,827	24,008,455	20,506,827
Tax payables	13,338,238	11,392,859	13,338,238	11,392,859
Other liabilities	229,697	196,195	229,697	196,195
Net assets	**1,754,275**	**1,498,415**	**3,066,103**	**2,618,881**

As of 31 December 2020 accruals for possible payables were revalued and USD 11,004 thousand (EUR 9,641 thousand) were derecognized and recorded in current profit or loss statement as income, as 1 year goodwill revaluation period has already passed.

ARAŠID spol. s r.o.
On 14 December 2019 WESTech s.r.o. has acquired the residual 35% of ARAŠID spol. s r.o. for consideration of EUR 571 000 (USD 632 725).

22 Interest-bearing loans and borrowings

Current	Interest rate %	Maturity	31.12.2020. USD '000	31.12.2019. USD '000	31.12.2020. EUR '000	31.12.2019. EUR '000
Bank loans and credit lines						
Swedbank Lizings (factoring)	EURIBOR3M/LIBOR3M+2.45%	10.03.2021	7,393	-	6,025	-
Credit line from Luminor Bank	Overnight LIBOR USD/EONIA EUR +3.0%	31.07.2021	-	4,904	-	4,365
Credit line from Luminor Bank	Overnight LIBOR USD/EONIA EUR +3.0%	31.07.2021	1,647	-	1,342	-
Credit line from OP Corporate Bank plc	USD LIBOR3M +3.55%	31.07.2021	-	18,586	-	16,544
Credit line from Transilvania Bank (Romania)	RON ROBOR6M +2.1%	24.05.2020	6,513	5,839	5,308	5,198
Credit line from Transilvania Bank (Romania)	RON ROBOR6M +2.1%	25.05.2020	1,785	1,174	1,455	1,045
SKB Bank d.d. (Slovenia)	EURIBOR6M +0.95%	07.10.2021	-	455	-	405
Credit line Sberbank (Russia)	6.70%	2021/2022	58,282	43,358	47,493	38,595
Trade finance facility (Russia)	9.00%	2021/2022	1,334	-	1,087	-
VTB (Russia)	6.10%	09.12.2022	-	10,920	-	9,720
Trade finance facility JSC OTP Bank (Ukraine)	15.50%	31.05.2022	4,670	4,320	3,806	3,845
Credit line CREDIT AGRICOLE Bank (Ukraine)	8.50%	30.04.2021	5,934	5,931	4,836	5,280
Credit line from Danske Bank (Sweden)	2.2-2.5%	31.12.2021	7,057	2,626	5,751	2,338
Trade finance facility Danske Bank (Sweden)	2.15-2.89%	31.12.2021	15,814	10,144	12,887	9,030
Trade Finance program Deutche Bank	LIBOR3M +3.75%	17.09.2021	19,935	11,095	16,246	9,876
Trade Finance OP Corporate Bank plc. (Latvia)	3.60%	21.01.2021	2,688	-	2,191	-
ELBATEX	1.90%	02.02.2020	-	67	-	60
Československá obchodní banka, a.s. (Slovakia)	EURIBOR3M +1.1-1.2%	2021/2024	776	292	633	261
Slovenská sporiteľňa, a.s. (Slovakia)	EURIBOR3M +1.1%	30.09.2023	48	51	39	45
Slovenská sporiteľňa, a.s. - overdraft (Slovakia)	EURIBOR3M +2.34%	30.06.2020	-	334	-	297
IMPULS-LEASING Slovakia s.r.o. (Slovakia)	5.00%	07.08.2021	8	-	7	-
Mercedes-Benz Financial Services Slovakia s.r.o. (Slovakia)	5-6%	2021/2022	14	-	11	-
ČSOB Leasing	8.00%	29.11.2023	39	-	32	-
Alfabank creditline for ELKO Grupa AS	4.20%	01.04.2022	5,801	-	4,727	-
Mercedes-Benz Financial Services Slovakia s.r.o. (Slovakia)	5-6%	2021/2022	5	-	4	-
Other loans:						
Interest-bearing loans from related	5%	2021/2023	7,724	12,613	6,295	11,228
Other - credit cards			7	10	6	9
Lease liabilities*			6,464	6,388	5,267	5,686
			153,938	**139,107**	**125,448**	**123,827**
Non-current						
Interest-bearing loans from related**	5%	2021/2023	19,630	20,817	15,997	18,531
Československá obchodní banka, a.s. (Slovakia)	EURIBOR3M +1.1-1.2%	2021/2024	268	245	218	218
Lease liabilities*			26,952	21,111	21,964	18,792
Mercedes-Benz Financial Services Slovakia s.r.o. (Slovakia)	5-6%	2021/2022	8	-	7	-
ČSOB Leasing	8%	29.11.2023	111	-	91	-
			46,969	**42,173**	**38,277**	**37,541**
			200,907	**181,280**	**163,725**	**161,368**

* Lease liabilities in accordance with IFRS16.

**Loan issued as an offset of dividends.

22 Interest-bearing loans and borrowings (continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	31.12.2020. USD '000	31.12.2019. USD '000	31.12.2020. EUR '000	31.12.2019. EUR '000
USD	89,193	68,014	72,686	60,543
RUB	59,616	58,912	48,583	52,441
EUR	10,320	22,571	8,410	20,092
RON	8,298	7,013	6,762	6,243
UAH	10,604	11,022	8,642	9,811
CZK	5	-	4	-
SEK	22,871	13,748	18,638	12,238
	200,907	**181,280**	**163,725**	**161,368**

Borrowings are secured by property, plant and equipment, intangible assets, trade receivables and inventory (Notes 14, 15, 17 and 18). The fair value of current borrowings approximates their carrying amount, as they bear floating interest rates and the impact of discounting is not significant. The average effective interest rate on the bank borrowings as at 31 December 2020 was 5.77% (2019: 7.46%). Fair values are disclosed in Note 26.

As at December 31, 2020 the Group had following undrawn available financing facilities:

	USD'000	EUR'000
Credit line from Luminor Bank	28,852	25,683
Credit line from OP Corporate Bank plc	20,000	17,803
Credit line from Transilvania Bank (Romania)	2,389	2,127
SKB Bank d.d. (Slovenia)	1,227	1,092
NLB Bank d.d. (Slovenia)	859	765
Credit line Sberbank (Russia)	18,111	16,122
Alfabank (Russia)	6,708	5,971
Credit line OTP (Ukraine)	1,060	944
Credit line from Danske Bank (Sweden)	7,057	6,282
Alfabank creditline for ELKO Grupa AS	8,199	7,298
	94,462	**84,087**

23 Trade and other payables

	31.12.2020. USD '000	31.12.2019. USD '000	31.12.2020. EUR '000	31.12.2019. EUR '000
Trade payables	243,824	206,536	198,700	183,849
Advances received*	6,542	4,639	5,332	4,129
Social security and other taxes	5,990	3,395	4,881	3,022
Unpaid salaries	2,971	1,692	2,205	1,506
Accrued expenses**	6,195	14,741	5,049	13,122
Other	1,831	1,741	1,708	1,550
	267,353	**232,744**	**217,875**	**207,178**

*As at 31.12.2020. advance received from customers, defined by the Group as contract liabilities were 6,542 thousand USD (5,332 thousand EUR) (31.12.2019: 4,639 thousand USD (4,129 thousand EUR)).
** As at 31.12.2020 accrued expenses attributable for operational risk in Russia were reduced due to TD Absolut LLC accrual reversal.

23 Trade and other payables (continued)

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 90 day terms;
- Other payables are non-interested bearing and have an average term of 30 days;
- Interest payable is normally settled monthly throughout the financial year;
- For terms and conditions relating to related parties, refer to Note 27.

24 Changes in liabilities arising from financial activities

	1 January 2020 USD'000	Cash flows USD'000	Foreign exchange movement USD'000	Changes in fair values USD'000	New leases USD'000	31 December 2020 USD'000
Non-current interest-bearing loans and borrowings	245	(7,867)	-	-	7,890	268
Current interest-bearing loans and borrowings	181,028	17,614	2	-	1,892	200,536
Derivative financial instruments	7		-	96	-	103
Total	**181,280**	**9,747**	**2**	**96**	**9,782**	**200,907**

	1 January 2020 EUR'000	Cash flows EUR'000	Foreign exchange movement EUR'000	Changes in fair values EUR'000	New leases EUR'000	31 December 2020 EUR'000
Non-current interest-bearing loans and borrowings	219	(6,431)	-	-	6,430	218
Current interest-bearing loans and borrowings	161,143	736	2	-	1,542	163,423
Derivative financial instruments	6	-	-	78	-	84
Total	**161,368**	**(5,695)**	**2**	**78**	**7,972**	**163,725**

25 Derivative financial assets and financial liabilities

25.1 Financial assets

	2020 USD '000	2019 USD '000	2020 EUR '000	2019 EUR '000
Financial instruments at fair value through profit or loss				
Derivatives not designated as hedges - Foreign exchange forward contracts	-	-	-	-
Total instruments at fair value through profit or loss	**-**	**-**	**-**	**-**
	USD '000	**USD '000**	**EUR '000**	**EUR '000**
Total financial assets	**-**	**-**	**-**	**-**

In 2020 Group entered into foreign exchange derivative contracts for the sale of RUB against USD 30.03 million RUB amount (RUB 423 million in 2019) with a weighted average term of 40 days; the sale of USD against EUR 19.78 million EUR amount (EUR 0.5 million in 2019) with a weighted average term of 18 days; and the sale of RON 6.98 million against USD and EUR (in 2019 RON 12.96 million) with a weighted average term of 13 days. Foreign exchange forward contracts are valued at the fair value which is calculated at market rates.

2020 derivatives were used as risk management tools to mitigate the impact of currency fluctuations on sales prices and the open currency positions.

25.2 Financial liabilities

	2020 USD '000	2019 USD '000	2020 EUR '000	2019 EUR '000
Financial instruments at fair value through profit or loss				
- Foreign exchange forward contracts	(103)	(7)	(84)	(6)
Total instruments at fair value through profit or loss	**(103)**	**(7)**	**(84)**	**(6)**
Total financial liabilities	**(103)**	**(7)**	**(84)**	**(6)**

26 Fair value measurement

Fair value measurement hierarchy as at 31 December 2020

	Date of valuation	Total		Fair value measurement using: Quoted prices in active markets (Level 1)		Significant observable inputs (Level 2)		Significant unobservable inputs (Level 3)	
Financial liabilities for which fair values are disclosed:		**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**
Assets measured at fair value:									
Financial instrumentss (Note 24)	31 December 2020	-	-	-	-	-	-	-	-
Liabilities measured at fair value:									
Derivative financial instruments (Note 24)	31 December 2020	7	6	-	-	7	6	-	-
Liabilities for which fair value is disclosed:									
Financial instrumentss (Note 24)	31 December 2020	103	84	-	-	-	-	-	-
Obligations under finance lease (Note 22)	31 December 2020	-	-	-	-	-	-	-	-
Bank loans and credit line (Note 22)	31 December 2020	200,907	163,725	-	-	200,907	163,725	-	-

26 Fair value measurement (continued)

Fair value measurement hierarchy as at 31 December 2019

	Date of valuation	Total		Quoted prices in active markets (Level 1)		Significant observable inputs (Level 2)		Significant unobservable inputs (Level 3)	
						Fair value measurement using			
Financial liabilities for which fair values are disclosed:		**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**
Assets measured at fair value:									
Financial instrumentss (Note 24)	31 December 2019	-	-	-	-	-	-	-	-
Liabilities measured at fair value:									
Derivative financial instruments (Note 24)	31 December 2019	50	43	-	-	50	43	-	-
Liabilities for which fair value is disclosed:									
Financial instrumentss (Note 24)	31 December 2019	7	6	-	-	-	-	-	-
Obligations under finance lease (Note 22)	31 December 2019	-	-	-	-	-	-	-	-
Bank loans and credit line (Note 22)	31 December 2019	181,280	161,368	-	-	181,280	161,368	-	-

There is no transfer between L1 and L2 during 2020.

27 Related party disclosures

There are no ultimate controlling parties of the Group. The shareholders of the Group are as follows:

			% of Share Capital	
	31.12.2020.	**31.12.2019.**	**31.12.2020.**	**31.12.2019.**
Shareholders ordinary shares				
Ashington Business Inc. Ltd, domiciled in the United Kingdom	23.74	24.02	23.74	24.02
Solsbury Inventions Ltd, domiciled in the United Kingdom	23.66	23.94	23.66	23.94
Eurotrail SIA, domiciled in Latvia	13.16	13.31	13.16	13.31
Whitebarn SIA, domiciled in Latvia	13.16	13.31	13.16	13.31
KRM Serviss, SIA, domiciled in Latvia	12.87	13.02	12.87	13.02
Solo investīcijas, SIA, domiciled in Latvia	12.24	12.39	12.24	12.39
Personal non voting shares				
Svens Dinsdorfs (57,995 shares)	0.59	-	0.59	-
Egons Mednis (32,219 shares)	0.33	-	0.33	-
Mārtiņš Ozoliņš (12,888 shares)	0.13	-	0.13	-
Vadims Rabša (12,888 shares)	0.13	-	0.13	-

Amber Trust II S.C.A. withdrew from share capital of ELKO Grupa AS on December 2019 and shares were shared among other owners by issuing B category shares.
On January 2020 B category shares were converted to A category shares.

27 Related party disclosures (continued)

27.1 Key management compensation

The members of the Council do not receive any remuneration. The member of the Board of Directors were entitled to a remuneration of USD 311 thousand or EUR 273 thousand (2019: USD 311 thousand or EUR 278 thousand).

	2020	2019	2020	2019
The Board members' remuneration:	USD '000	USD '000	EUR '000	EUR '000
- salary expenses	251	251	220	224
- social insurance	60	60	53	54
	311	**311**	**273**	**278**

27.2 Transactions with related parties

There were no sales to related parties in any of the years presented. There were no guarantees issued to related parties at any statement of financial position date presented.
As of 31 December 2020 there is outstanding loan received from shareholders in amount of USD 28,763 thousand (EUR 23,440 thousand) (see note 22)

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

28 Commitments and contingencies

All assets of the Group except as noted in Note 17 Inventories have been pledged as security in favour of the banks.

29 Events after the reporting period

Financing

Existing financing provided by syndicate of banks matures on 31 July 2021. Negotiations on prolongation of the financing fiished and decision for prolongation in the existing limit already received from OP Corporate Bank, Luminor Bank and Swedbank.

On 12 February 2021 Elko Grupa AS has issued EUR 20 million bonds with a maturity of 5 years and a coupon rate of 6% p.a. payable semiannually. The bonds will be listed on the Nasdaq Riga First North list of the alternative securities market.

Market condition

During year 2020 the global fight with pandemic of Covid-19 virus continued. However, most of World economies started to recover.

Due to many limitations and lock downs imposed, demand for IT goods significantly increased in year 2020, bringing to the Group 16% increase in revenue and 26% in gross profit.

The full impact of the COVID-19 pandemic on economic activity is still unknown and the situation is still developing. The Company's management believes that COVID-19 will not have material impact on the business operations after

29 Events after the reporting period (continued)

the reporting date. However, this assumption is based on the information available at the time of signing these financial statements and the impact of future events on the Company's ability to continue as a going concern may differ from the management's assessment.

There are no subsequent events except for the ones mentioned in financial statements since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2020.

Egons Mednis	Olga Ivanova
Chairman of the Board	Chief accountant

19 April 2021

Building a better working world

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Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ELKO Grupa AS

Opinion

We have audited the accompanying consolidated financial statements of ELKO Grupa AS and its subsidiaries (the Group) set out on pages 8 to 63 of the accompanying consolidated annual report, which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year that ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information all expressed in US dollars.

In our opinion, the accompanying consolidated financial statements expressed in US dollars give a true and fair view of the financial position of the Group as at 31 December 2020 and of its financial performance and its cash flows for the year that ended in accordance with International Financial Reporting Standards as adopted by the European Union. In our opinion, the financial statements expressed in euro have been properly translated on the basis described in Note 2.2 *Foreign currency translation*.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (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 have also reviewed the translation of these statements into euro on the basis described in Note 2.2 *Foreign currency translation*. We are independent of the Group in accordance the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

Management is responsible for the other information. The other information comprises:

- the General information about the Group as set out on page 3 of the accompanying consolidated Annual Report;
- the Management Report as set out on pages 4 to 6 of the accompanying consolidated Annual Report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report.

Other information 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 and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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

- the information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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 the 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 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 skepticism 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.

ERNST & YOUNG BALTIC SIA
License No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153

Riga,
19 April 2021