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).

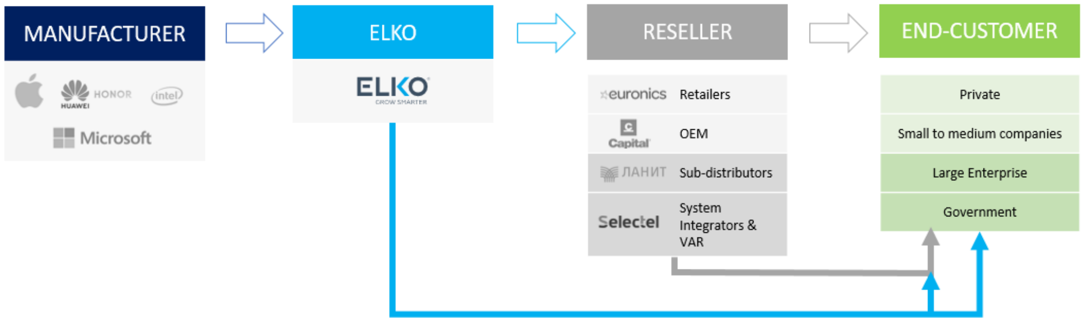
11. Business of the Issuer

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