



Company Description Securities Note

June 2021

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

RESPONSIBLE PERSONS

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

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

 Egons Mednis
 Chairman of the board

 Svens Dinsdorfs
 Member of the board

 Vadims Rabša
 Member of the board

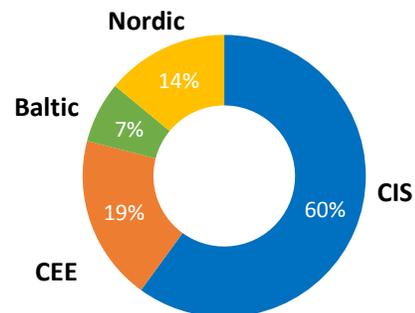
 Mārtiņš Ozoliņš
 Member of the board

EXECUTIVE SUMMARY

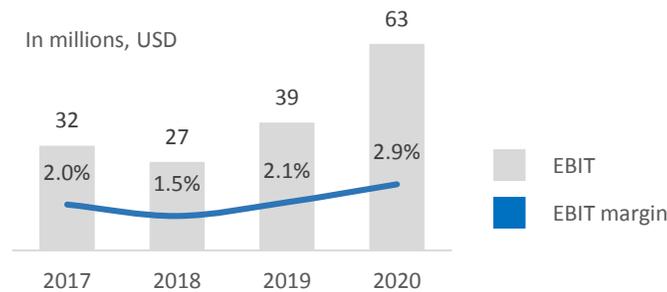
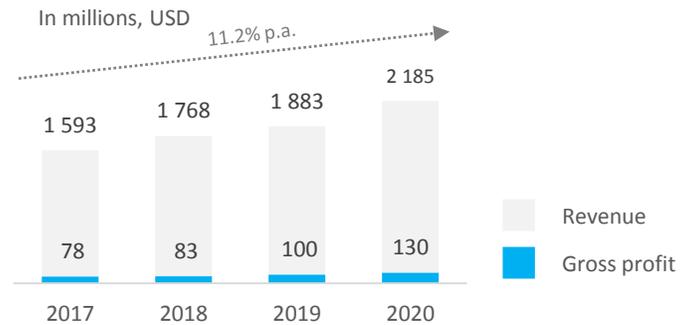
ELKO OPERATING MARKETS



SALES BY REGION



GROWING AND PROFITABLE



CORE BRANDS



Regional leader

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

Strong financials

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

Partnerships

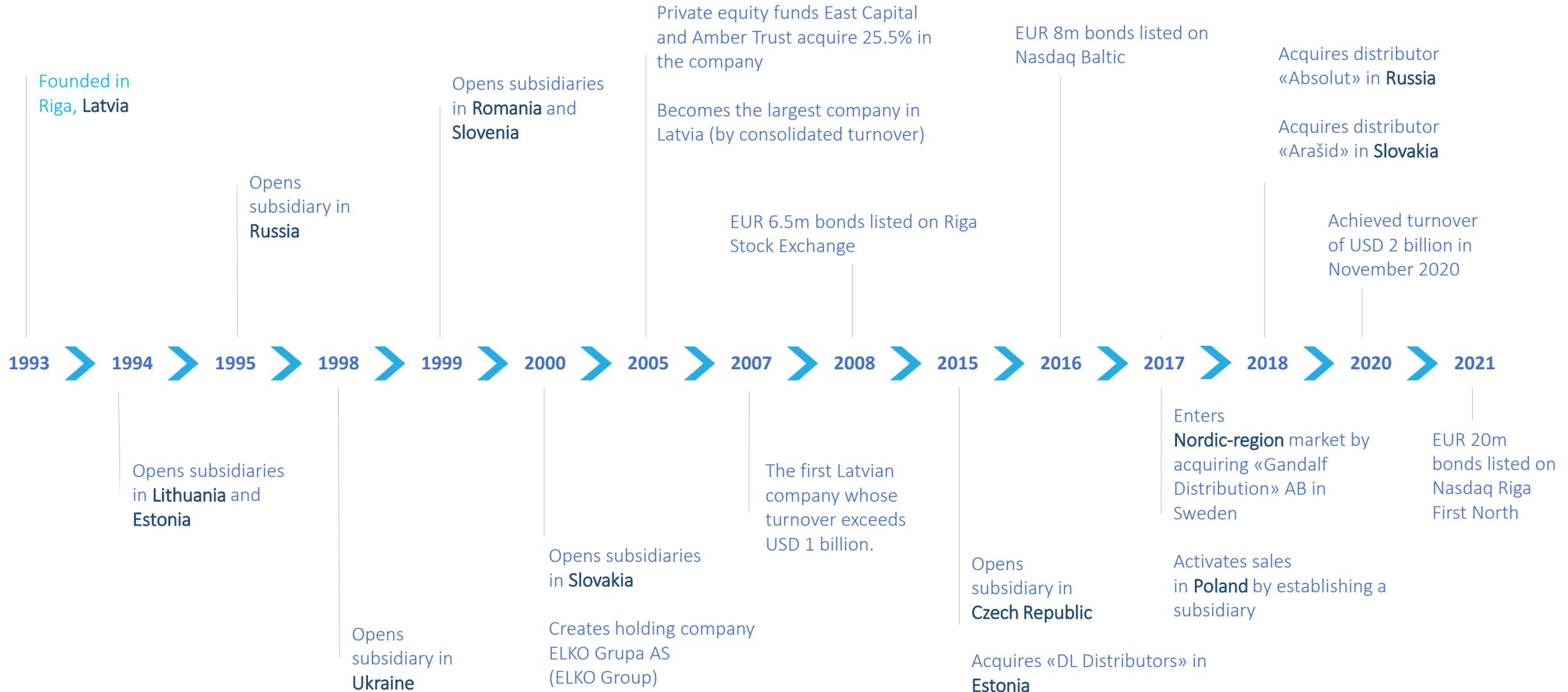
ELKO Group is an exclusive regional distributor for 31 global brand and has strong vendor relations with its largest suppliers Apple, Huawei, Intel, Samsung and many more

GROUP OVERVIEW



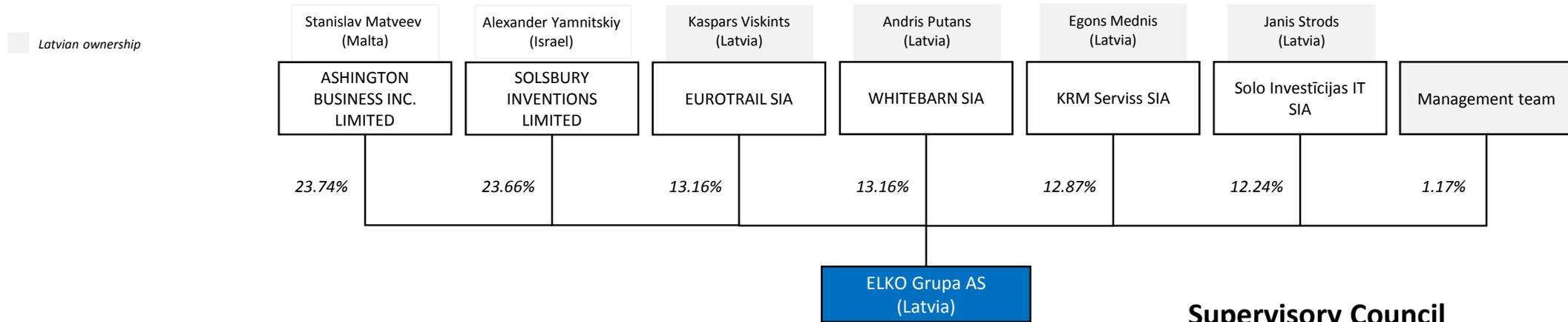
KEY MILESTONES

SINCE ITS LAUNCH, ELKO HAS BECOME ONE OF THE LEADING IT COMPANIES IN NORTHERN AND EASTERN EUROPE, WITH A TURNOVER EXCEEDING \$2 BILLION



OWNERSHIP STRUCTURE

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



Supervisory Council

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

Andris Putāns - Chairman of the supervisory council

Education – Higher education diploma from Riga's Polytechnic Institute

Experience – Co-founder of ELKO Grupa, current ultimate beneficiary

Holds 1,302,762 A category shares (indirectly)

Kaspars Viškints - Member of the supervisory council

Education – Higher education diploma from Riga's Polytechnic Institute

Experience – Co-founder of ELKO Grupa, current ultimate beneficiary

Holds 1,302,762 A category shares (indirectly)

Ēriks Strods - Member of the supervisory council

Education – Higher education diploma from Riga's Polytechnic Institute

Experience – Co-founder of ELKO Grupa,

Does not hold any shares of ELKO Grupa

Edgars Kvālis – Member of the supervisory council

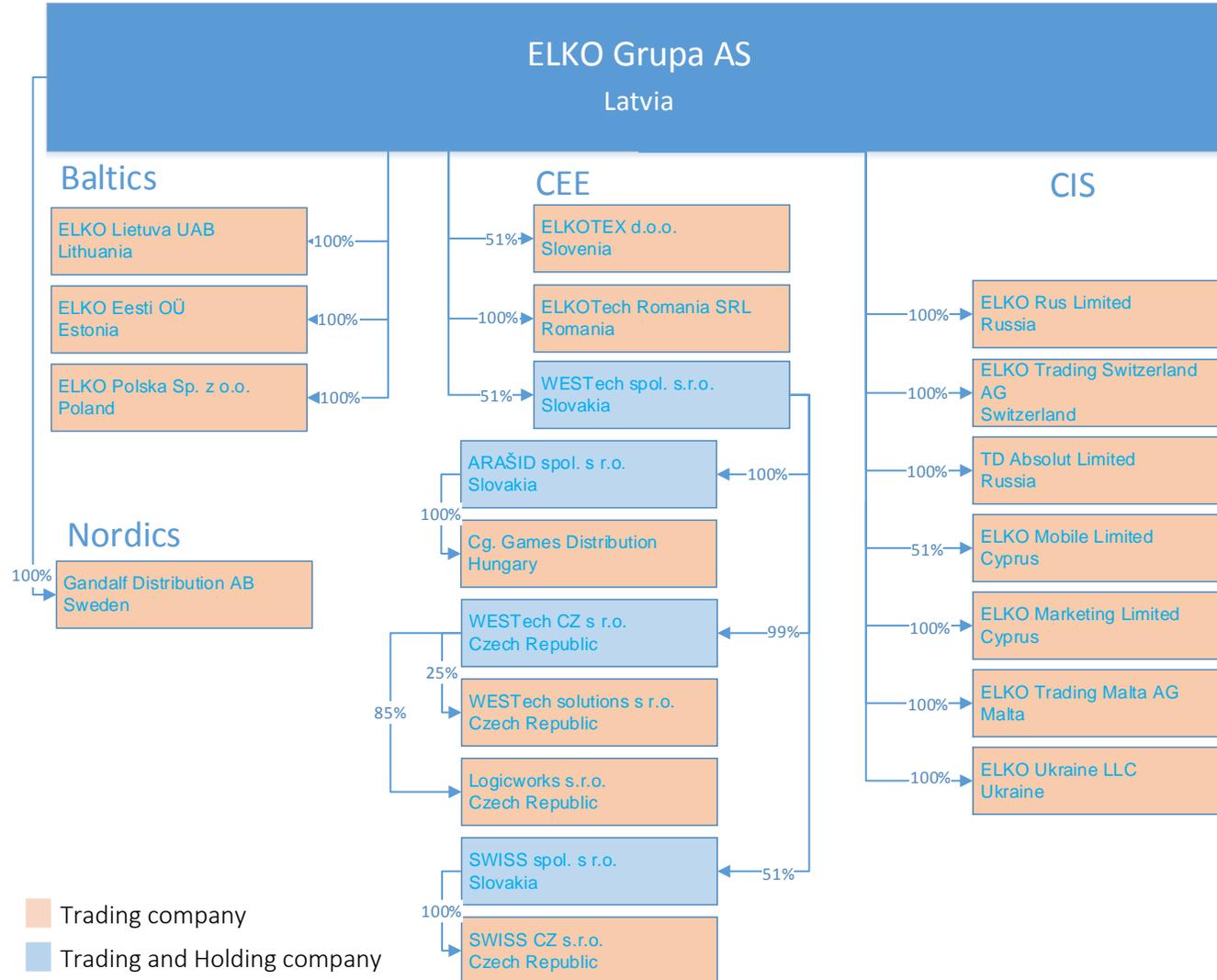
Education – Riga, Technical University, SSE Riga, Baltic Institute of Corporate Governance

Experience – Former CFO of ELKO Grupa, currently member of the board of ENERGOREMONTS RIGA

Does not hold any shares of ELKO Grupa

GROUP STRUCTURE

ELKO GROUP CONSISTS OF PARENT COMPANY ELKO GRUPA AS AND 21 SUBSIDIARIES



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

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

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

Baltic subsidiaries operate as representative offices in each Baltic state.

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

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

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

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

GROUP PRESENCE

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

Nordic Region

One of the leading distributors of computer and peripheral products in Sweden
Present also in Norway, Denmark, Finland.

Baltic Region

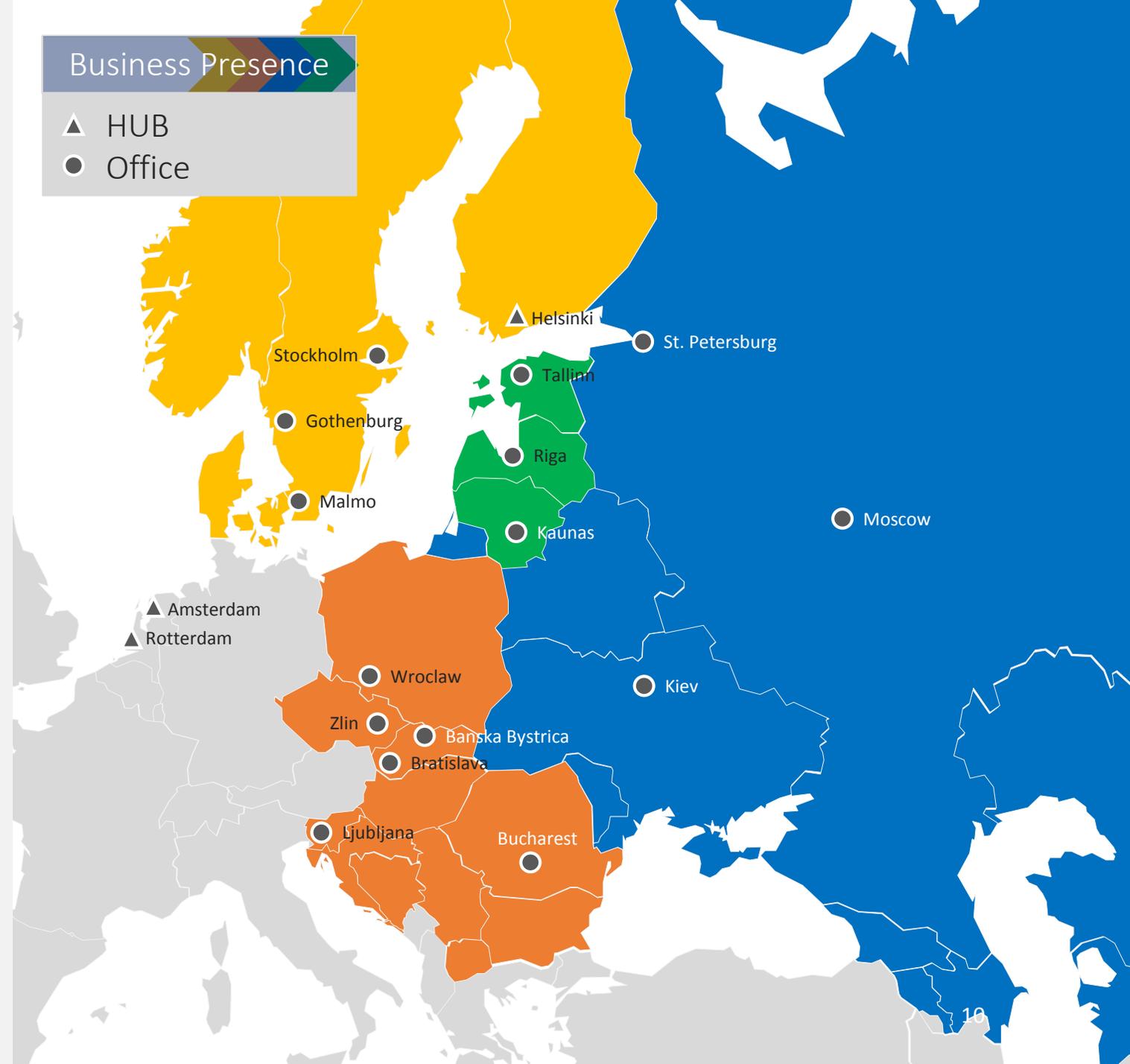
Latvia, Lithuania and Estonia.
Top 3 distributor in the Baltic region.
Widest and most balanced product portfolio.

CEE Region

Romania, Poland, Slovakia, Czech Republic and Slovenia.
Top 3 distributor for each of its key vendors in the countries in which ELKO operates.
Apple Premium reseller and B2B solutions provider in Slovakia and Czech Republic.
Mobile & Gaming retail operation in Slovakia and Czech Republic.

CIS Region

Present in Russia and Ukraine.
Top 3 distributor in Russia and Ukraine for each of its key vendors.
Smartphones business driving growth.
Strongest PC Components Partner of Key Vendors.
White goods distributor TD Absolut acquired in 2018.



MANAGEMENT

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



EGONS MEDNIS

Chairman of Board, President, Co-founder

EXPERIENCE

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

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

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

EDUCATION

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

SHARES

1,274,223 A category shares (indirectly)



SVENS DINSDORFS

Member of Board, CEO

EXPERIENCE

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

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

EDUCATION

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

SHARES

57,995 personal non-voting shares



VADIMS RABŠA

Member of Board, CFO

EXPERIENCE

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

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

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

EDUCATION

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

SHARES

12,888 personal non-voting shares



MARTINS OZOLINS

Member of Board, Acting Commercial Director

EXPERIENCE

ELKO Grupa AS, Acting Commercial Director
Since 07/2017

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

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

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

EDUCATION

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

SHARES

12,888 personal non-voting shares

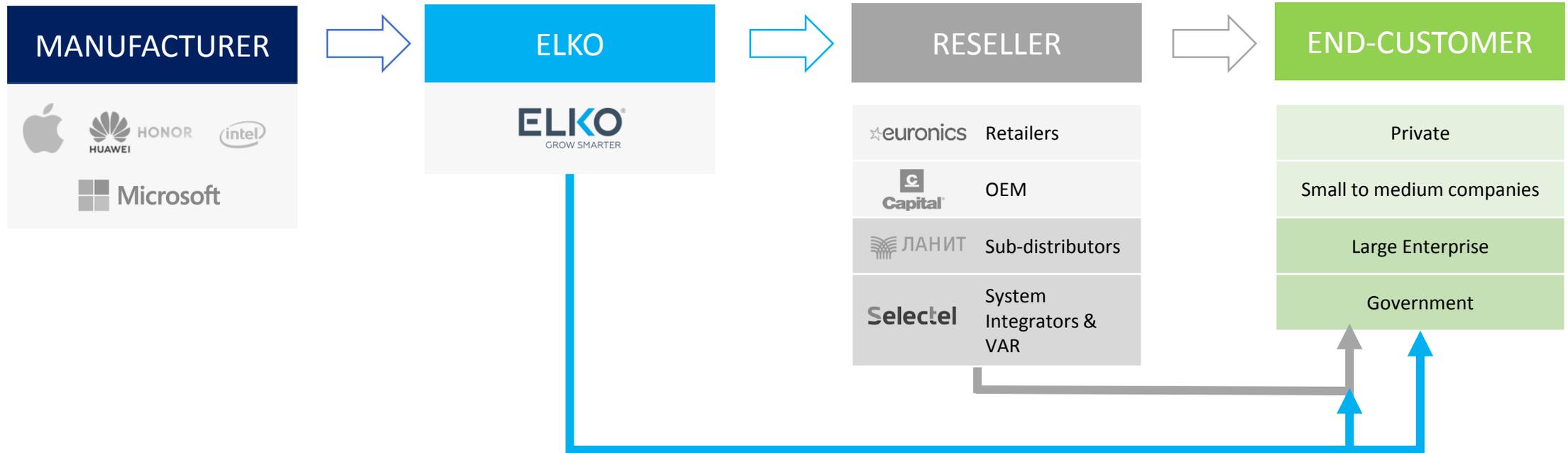
BUSINESS OVERVIEW



ELKO BUSINESS MODEL

ELKO GROUP IS ONE OF THE REGION'S LARGEST DISTRIBUTORS OF IT AND CONSUMER ELECTRONICS PRODUCTS AND SOLUTIONS

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



BUSINESS SEGMENTS

THE GROUP'S MAIN BUSINESS IS IT PRODUCTS, BUT IT IS ALSO GROWING OTHER BUSINESS LINES — CONSUMER ELECTRONICS AND SOLUTIONS

IT products

Well-built portfolio for	Turnover 2020, M USD	
• Mobile Communication	582.7	27%
• Components	572.5	26%
• Personal Computing	301.2	14%
• Software and more	60.2	3%
		<u>70%</u>

Consumer electronics

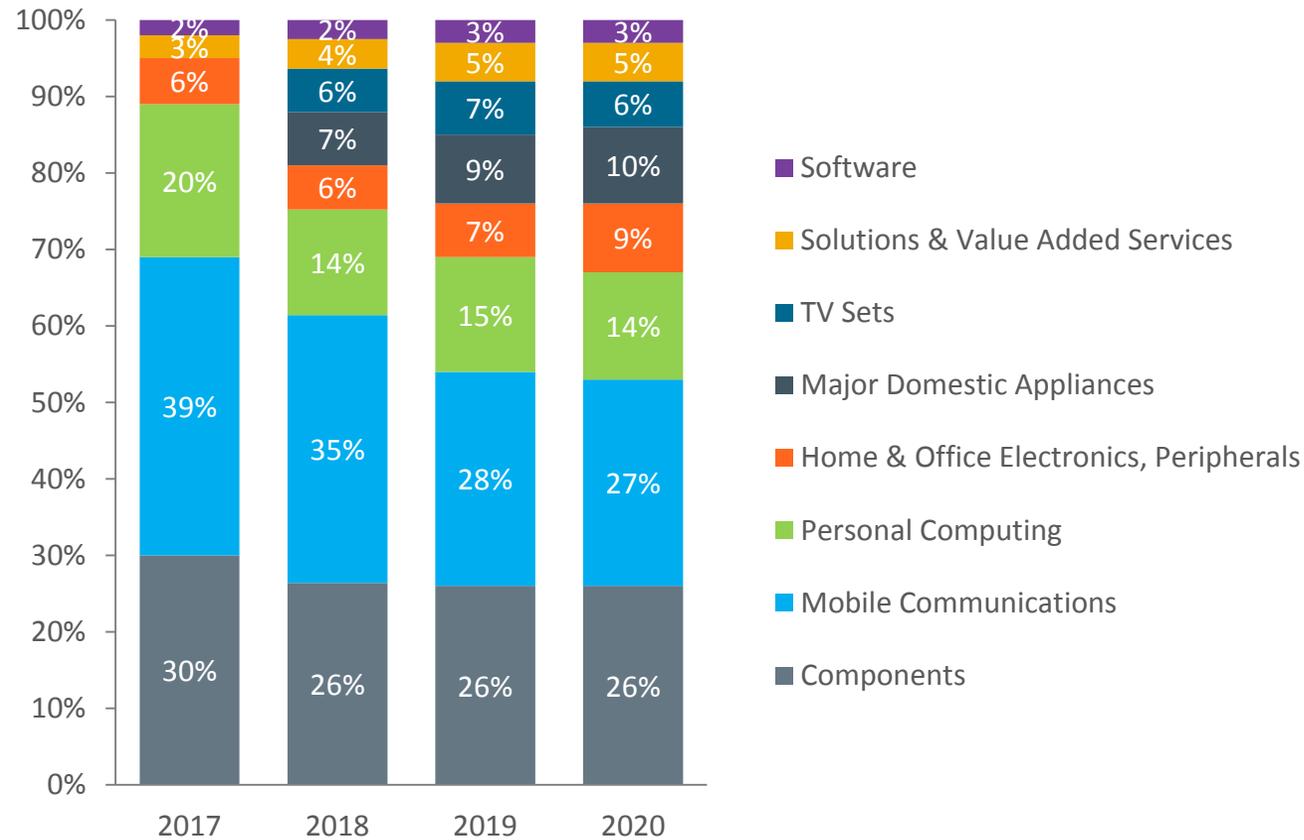
Fast-rising segment of	Turnover 2020, M USD	
• Domestic Appliances	217.8	10%
• Home & Office Electronics	195.5	9%
• TVs and more	140.6	6%
		<u>25%</u>

Solutions

Serving projects in fields like	Turnover 2020, M USD
• Security Systems	} 119.2 (5%)
• Data Centre Infrastructure	
• Industrial Automation	
• Others	

DIVERSE PRODUCT RANGE

ELKO GROUP DISTRIBUTES MORE THAN 40 THOUSAND IT AND CONSUMER ELECTRONICS PRODUCTS FROM 500+ LEADING IT MANUFACTURERS



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

VENDORS

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

Long-term relationships with the largest vendors

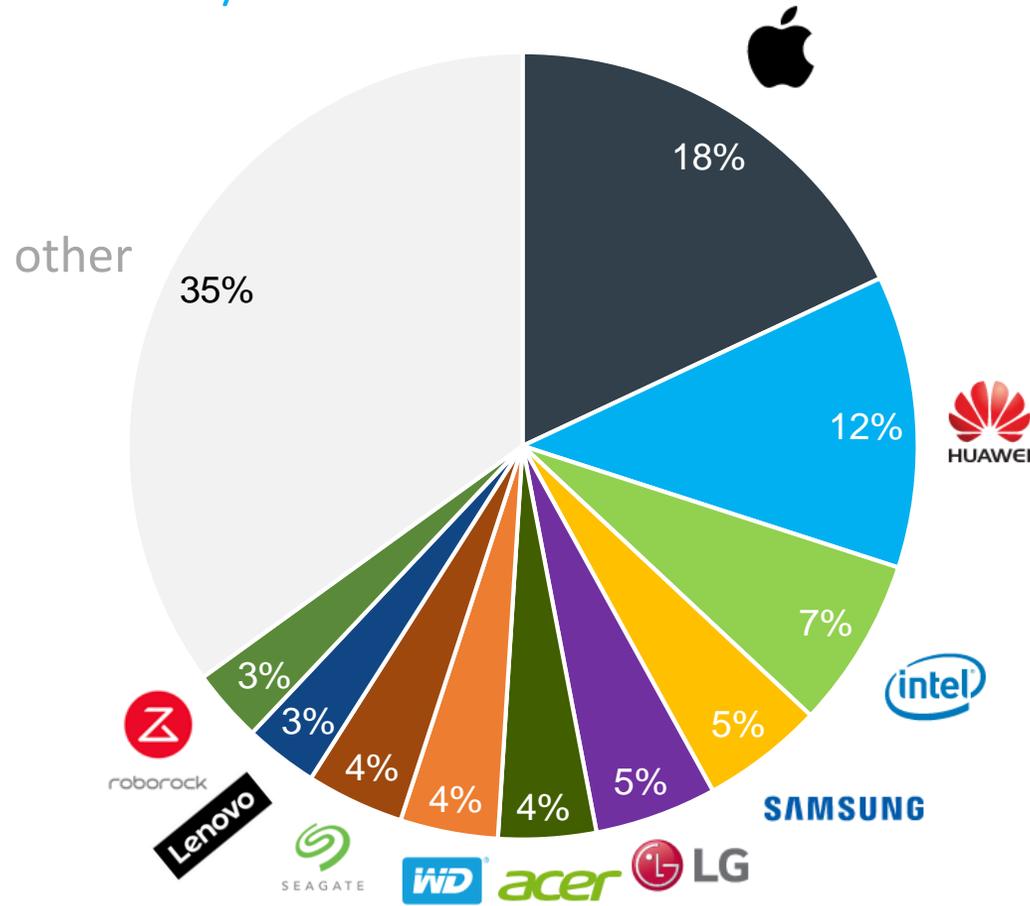
ELKO aims to be Top 3 distributor for each major brand within each region. For 31 brands in selected markets ELKO is the only sizeable distributor - for example, Lanner for Russia, MSI for Baltics, Roborock for Sweden, Romania Slovakia and Slovenia.

Branded vendors	Components	Solutions	Household appliances
 HONOR HUAWEI			 LG Life's Good
			SAMSUNG
 HUAWEI	GIGABYTE™		beko
Lenovo.	AMD		
SAMSUNG			CANDY
 LG Life's Good			ATLANT
ASUS	TOSHIBA	Getac	
	SAMSUNG	Lenovo.	PHILIPS
THOMSON	SanDisk™	AEWIN	gorenje

SALES BY VENDOR

PRODUCTS FROM TOP 10 LARGEST VENDORS ACCOUNT FOR 65% OF ELKO GROUP SALES

Sales by vendor in 2020



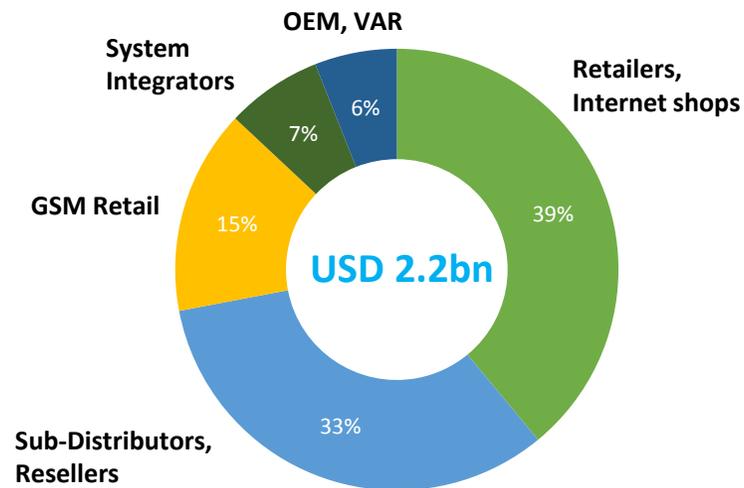
ELKO actively seeks vendor diversification to limit single-vendor concentration below 20-25% share

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

TOP CLIENTS BY SALES AND CLIENT TYPE

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

Sales by client type in 2020



Top clients by client type

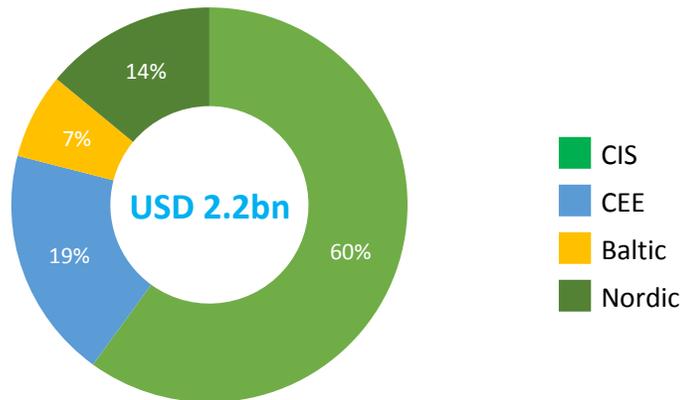
TOP 10	Retailers, Internet shops	GSM Retail	OEM, VAR	Sub-Distributors, Resellers	System Integrators
1	DNS	RCS HOLLAND B.V.	AQUARIUS	ORION	SELECTEL LTD.
2	MVIDEO	NEXT CONCEPT	DEPO COMPUTERS	MERLION	KOD BEZOPASNOSTI
3	OZON	TELEPART DISTRIBUTION GMBH	CAPITAL AS	LANIT	RDP
4	NETONNET	PARKTEL SP. Z.O.O.	ARTLINE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



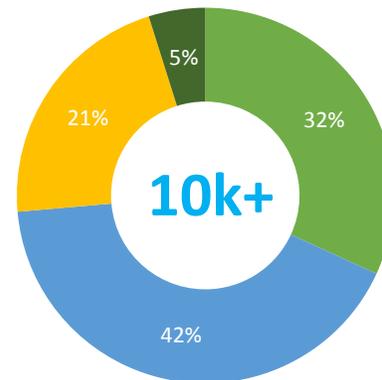
REGIONAL DISTRIBUTION OF CLIENTS

ELKO GROUP CLIENT BASE HAS GROWN FROM 6.7 THOUSAND CLIENTS IN 2016 TO MORE THAN 10 THOUSAND CLIENTS IN 2020

Revenue distribution by region in 2020



Number of clients by region



Notes:

CIS region - Russia, Ukraine

CEE region - Romania, Poland, Slovakia, Slovenia, Czech Republic

Baltic region - Estonia, Latvia, Lithuania

Nordic region - Sweden, Norway, Finland, Denmark

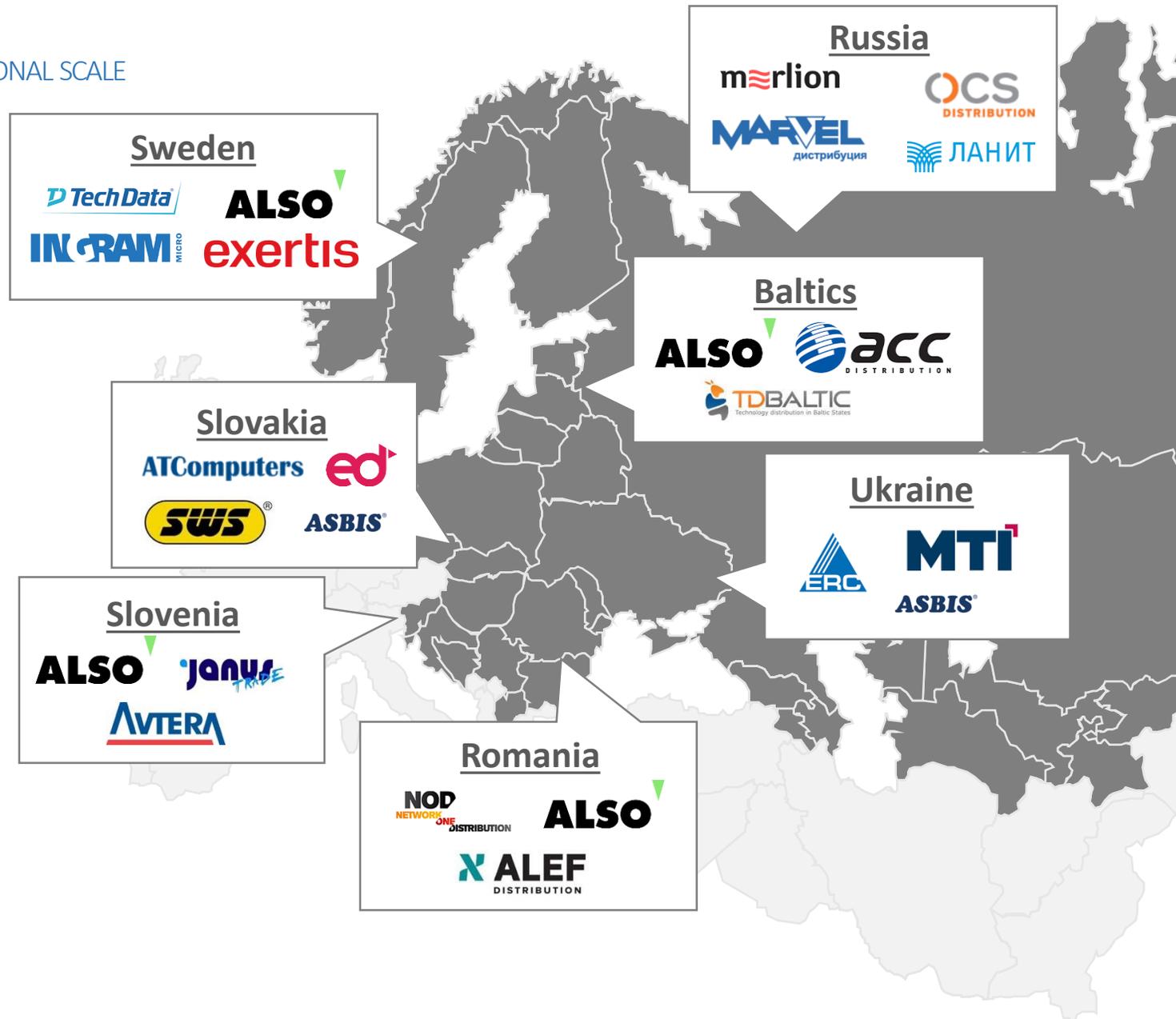
- ELKO Group has diversified its regional presence within Eastern Europe by expanding its client base throughout the region
- The majority of turnover is generated in CIS region while the majority of clients are in CEE region
- For cross-border deals the regionality of clients and revenues is accounted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

LARGEST COMPETITORS

ELKO GROUP COMPETES ON AN INTERNATIONAL SCALE

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

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



LOGISTICS & INVENTORY MANAGEMENT

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



Warehousing

Premises – all rented.

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

Equipment – mainly owned.

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

Stock – owned by ELKO.

Picking – manual with scanners.

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

Inbound Transportation

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

HUB system

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

Outbound Transportation

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

IT systems & tools

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

Customer Service & RMA

All managed by internal resources.

EMPLOYEES

HIGHLY EDUCATED WORKFORCE, WITH 5+ YEARS AVERAGE EMPLOYMENT TERM

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

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

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

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



71%

Employees with higher education

38 years

Average employee age at ELKO

5+ years

Average employment term at ELKO

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

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

By department

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

By country

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

FINANCIAL OVERVIEW



Investment	Value at Year end
339 970	373 967
56 969	804 029
817	1 296 731
58	1 859 317
	2 499 808
	3 227 076
	4 050 935
	R 28 331

Investment

424 963
446 211
468 522
491 948
516 545
542 372
569 491

Start at monthly

Can we do it

GROUP FINANCIALS

OVER THE PAST 5 YEARS THE GROUP HAS BECOME ONE OF THE LARGEST IT DISTRIBUTORS IN THE REGION

In millions USD

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

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

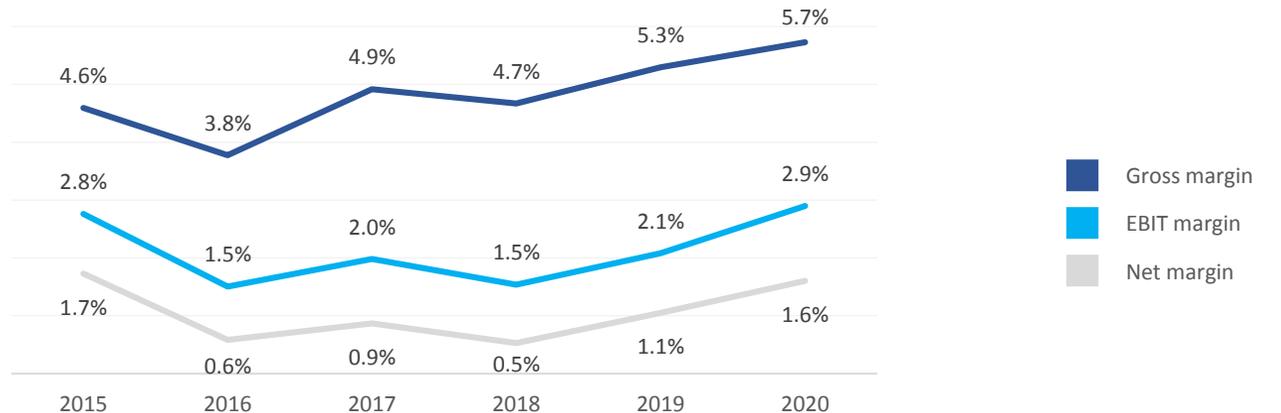
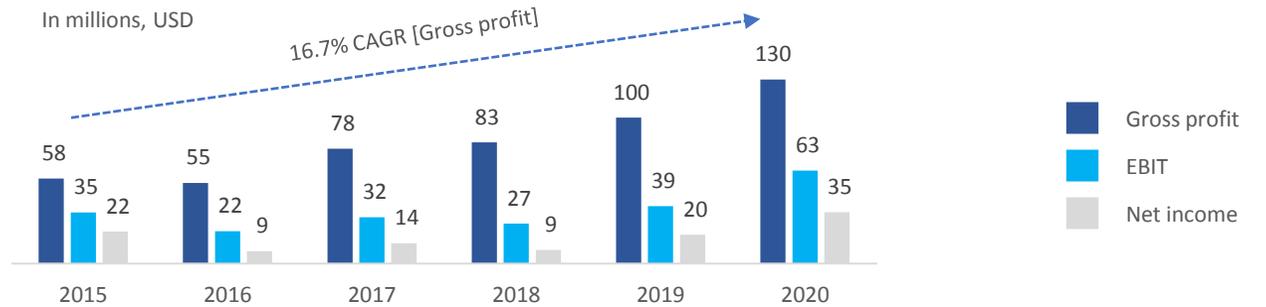
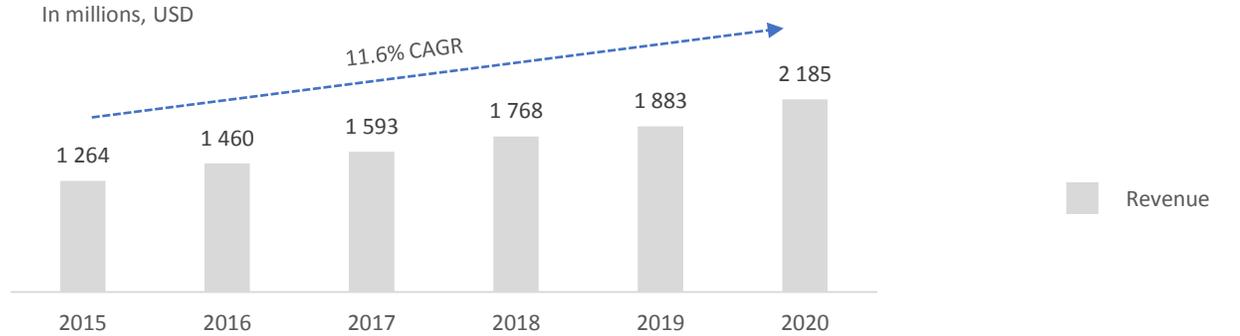
Due to IT wholesale sector specifics, Issuer functional currency is US dollars. As of 31.12.2020, EUR/ USD exchange rate was 1.22710 according to "Latvijas Banka" data.

STRONG TOP-LINE GROWTH

OVER THE PAST 5 YEARS THE GROUP HAS GROWN BY 11.6% P.A.

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

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



FINANCIAL STANDING

ELKO GROUP'S FINANCIAL STRENGTH IS IMPROVING

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

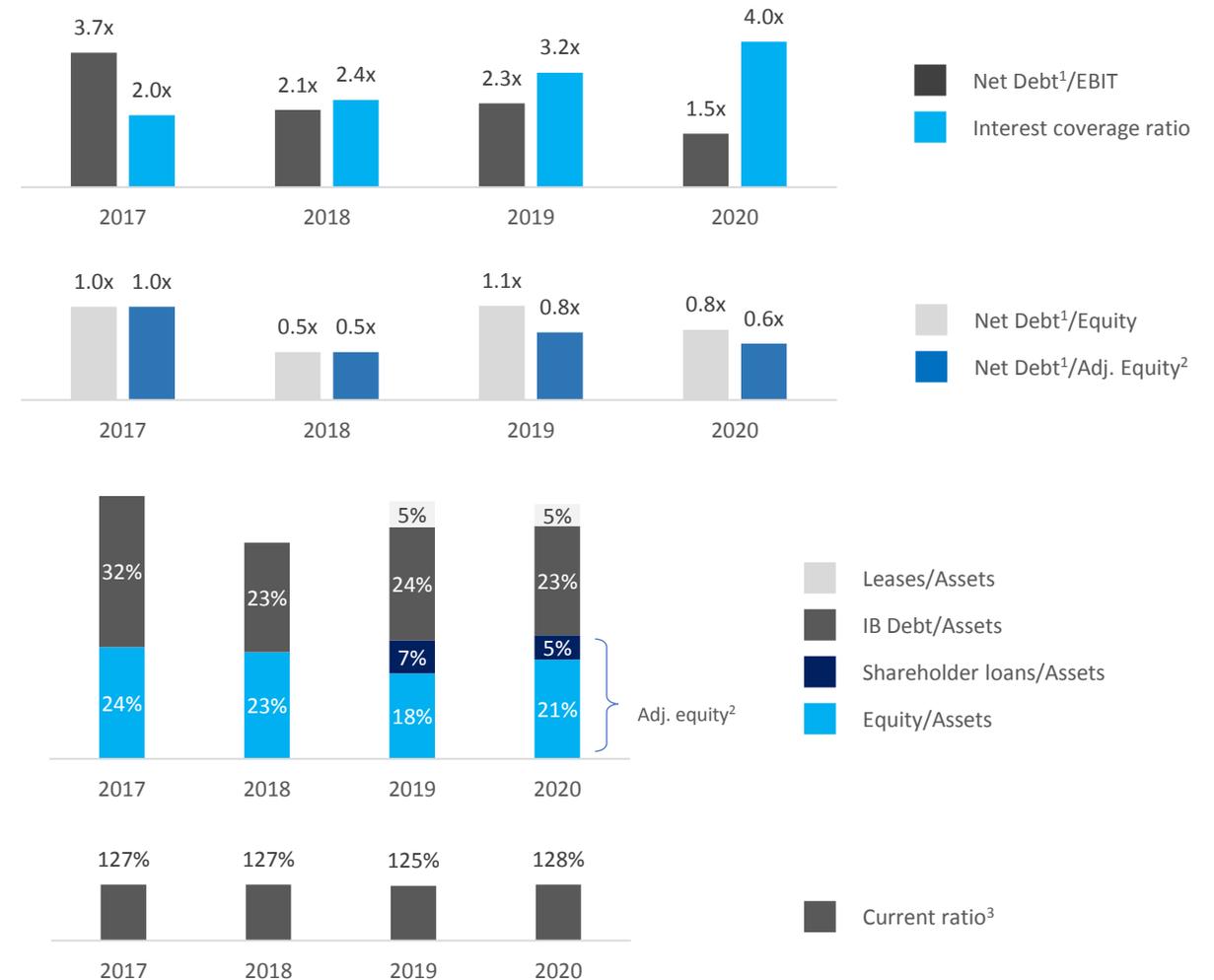
The Group's interest coverage ratio has increased to 4.0x in 2020.

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

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

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

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

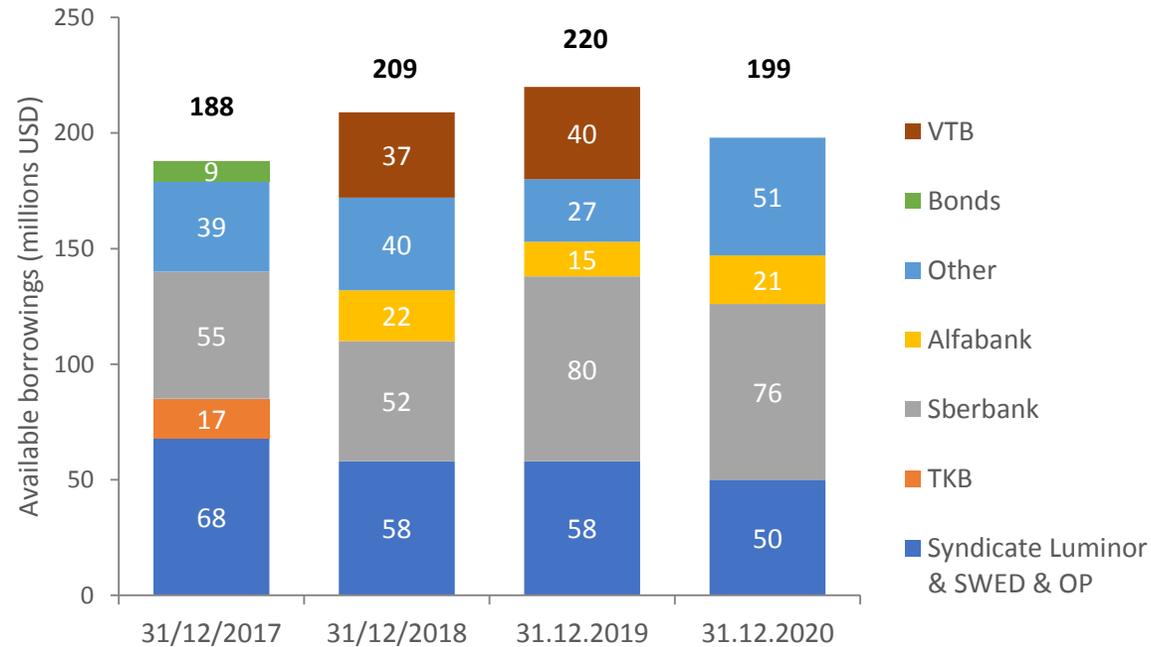


Notes:

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

FINANCING LIMITS

MAJORITY OF ELKO GROUP FINANCING IS SHORT-TERM WORKING CAPITAL
FINANCING, FUNDED IN LOCAL CURRENCIES



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

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

LISTING DISCLOSURES



TRANSACTIONS WITH RELATED PARTIES (1)

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

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

TRANSACTIONS WITH RELATED PARTIES (2)

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

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

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

All the transactions have been performed at market rates

OTHER STATEMENTS

Legal proceedings and arbitration

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

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

Substantial changes in financial situation of the Issuer

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

Important agreements

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

Significant recent and known trends

During 2020 many economic sectors were affected by Covid-19 virus outbreak. For detailed information on risks see Section 2 "Risk factors" of the Terms of the Issue.

At the moment of preparing this Company Description and Securities Note, the Issuer has no information at its disposal regarding any known trends that have negatively affected the Issuer or the activity, apart from the aforementioned Covid-19 impact.

BOND ISSUE



ISSUE TERMS OF THE NOTES*

ELKO IS A RECOGNIZED CAPITAL MARKETS PARTICIPANT WITH 2 REDEEMED BOND ISSUES, SINCE 2010

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

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



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

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

Representative

Edmunds Antufjevs

E-mail: Edmunds.Antufjevs@signetbank.com

Phone: +371 67081058

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

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

INVESTOR RIGHTS*

Investor rights

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

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

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

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

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

Significant investor rights if Issuer breaches its obligations

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

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

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

RISK FACTORS (1)

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

Important note

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

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

Macroeconomics

ELKO Group is engaged in distribution of IT hardware, software and consumer electronics with direct presence in fourteen countries. ELKO Group distinguishes four primary regions – the Baltic's (Estonia, Latvia, Lithuania), the CIS (Russia, Ukraine), the CEE (Romania, Poland, Slovakia, Czech Republic and Slovenia) and the Nordic region (Sweden, Norway, Denmark and Finland). During the first 9 months of 2020, most of the ELKO Group's revenue (59%) was generated in the CIS market, CEE region contributed 20% of the total revenue, Nordic region – 14% and Baltics – 7%.

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

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

Competition risk

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

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

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

Relations with key vendors

ELKO Group depends on a number of key vendors to purchase particular products in the required quantities and to fulfil customer orders on a timely basis. In the first 9 months of 2020, products purchased from the Group's five largest vendors - Apple, Huawei, Intel, Samsung and ACER - accounted for approximately 20%, 12%, 7%, 5% and 4%, respectively, of ELKO Group's total revenue. Top 10 largest vendors accounted for 65% of ELKO Group's total revenue.

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

Inventory management

Because ELKO Group maintains certain inventories in order to ensure that the lead times to customers remain competitive, it is subject to the risk of inventory obsolescence. Inventory management is also dependent on seasonality, as the Group has to manage its inventory to meet expected demand. For example, at the end of the third quarter, the Group accumulates larger stock volumes to prepare for the increased demand at the end of the year. ELKO Group's inventory levels were USD 169 million at the end of 2019 and USD 213 million at the end of September 2020.

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

Financial leverage

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

RISK FACTORS (2)

Foreign exchange risk

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

At the end of 2019 borrowings, excluding lease liabilities and loans from shareholders, were denominated in various currencies: 40% in RUB, 23% in USD, 15% in EUR, 9% in SEK, 7% in UAH, 5% in RON. As of 30 September 2020, borrowings, excluding lease liabilities and loans from shareholders, were denominated as follows: 51% in RUB, 27% in USD, 11% in SEK, 6% in EUR, 3% in UAH, 3% in RON. To cover currency risks ELKO Group accounts all positions, then uses natural hedging instruments (loans, factoring, accounts payable matching with inventory and accounts receivable) and lastly closes the remaining open position with forwards. ELKO Group's main counterparty for forwards is Deutsche Bank.

Dependence on warehouse and logistics partners

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

Dependence on managing employees

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

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

Operational risks

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

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

Taxation risk

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

IT Systems

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

Credit risk of clients

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

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

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

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

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

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

Risk of natural disasters and other business disruption

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

RISK FACTORS (3)

Risks related to Bonds

Bonds repayment risk

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

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

Liquidity risk

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

Delisting risk

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

Price risk

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

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

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

Foreign exchange risk

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

Repurchase or redemption risk

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

Tax risk

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

Resolutions of Bondholders risk

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

ANNEXES

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

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

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



*Financial reports in Latvian are available on Nasdaq Riga website



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