Joint stock company ELKO Grupa

Unified registration number: 40003129564

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

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED BY THE EU
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2021

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

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

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General information

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

Management report

Business profile

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

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

Financial analysis

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

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

Future prospects

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

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

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

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

Subsequent events

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

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

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

Management report (cont'd)

AS ELKO Grupa structure

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

AS ELKO Grupa has majority shareholding in all subsidiaries.

Financial risk management

Multi-currency risk

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

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

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

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

Interest rate risk

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

Credit risk

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

Inventories

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

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

Liquidity risk

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

Management report (cont'd)

Events after the end of the reporting period

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

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

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

Profit distribution proposed by the Board

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

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Egons Mednis

Valdes priekšsēdētājs,

Prezidents

Rīgā, 2021. gada 19. aprīlī

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

Akcionāru sapulces priekšsēdētājs ____________________

Andris Putāns

Statement of Management's Responsibility

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

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

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

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

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Egons Mednis
Chairman of the Board

19 April 2021

Financial statements

Statement of comprehensive income

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

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

Egons Mednis	Olga Ivanova
Chairman of the Board, President	Chief Accountant

19 April 2021

Statement of financial position

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

Statement of financial position

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

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

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

19 April 2021

Statement of changes in equity

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

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

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

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

19 April 2021

Statement of cash flows

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

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

Egons Mednis

Chairman of the Board,
President

Olga Ivanova

Chief Accountant

19 April 2021

Notes to the financial statements

1. Corporate information

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

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

2. Summary of significant accounting policies

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

2.1. Basis of preparation

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

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

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

In determining the functional currency, the Company has considered the following factors:
(a) the currency:
(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services;
(b) the currency that mainly influences labor, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled);
(c) the currency in which funds from financing activities (e.g. from issuing debt and equity instruments) are generated;
(d) the currency in which receipts from operating activities are usually retained.

The following additional factors were considered in determining the functional currency of a foreign operation and whether its functional currency is the same as that of the Company:
(a) whether the activities of the foreign operation are carried out as an extension of the Company, rather than being carried out with a significant degree of autonomy;
(b) whether transactions with the Company constitute a high or low proportion of the foreign operation's activities;
(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the Company and are readily available for remittance to it;
(d) whether cash flows from the activities of the foreign operation are sufficient to service the existing and normally expected debt obligations without funds allocated by the Company.

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

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

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

2.2. Foreign currency translation

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

2.2. Foreign currency translation (cont'd)

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

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

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

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

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

2.3. Revenue recognition

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

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

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

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

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

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

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

Contract balances
Trade receivables
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to the accounting policies for financial assets in Section 2.5. The Company disclosed trade and other receivables and prepayments under the trade receivables caption (Note 17).

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

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

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

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

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

2.4. Taxes

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

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

Value added tax
Revenues, expenses and assets are recognized net of the amount of value added tax except:

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

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

2.5. Financial instruments – initial recognition and subsequent measurement

2.5.1. Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.3 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

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

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss. This category includes derivative instruments.

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

- The rights to receive cash flows from the asset have expired
  Or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.
In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Significant accounting judgments, estimates and assumptions (Note 4)
- Trade receivables (Note 17)

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

2.5.2. Financial liabilities

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

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

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

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

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.
Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has designated derivative financial instruments as financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.
Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.
This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 25.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

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

2.6. Intangible assets

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

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

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

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

Licenses	20% per annum

2.7. Property, plant and equipment

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

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

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

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

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

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

2.8. Leases

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

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

Company as a lessor

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

2.9. Investments in subsidiaries

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

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

2.10. Borrowing costs

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

2.11. Inventories

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

2.12. Impairment of non-financial assets

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

2.13. Cash and cash equivalents

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

2.14. Share capital and dividend distribution

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

2.15. Related parties

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

2.16. Provisions

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

2.17. Warranties

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

2.18. Vendor programs

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

2.19. Off-balance sheet commitments and contingencies

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

2.20. Subsequent events

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

3. Changes in accounting policy and disclosures

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

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

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

4. Significant accounting judgments, estimates and assumptions

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

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

4.1 Currency

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

4.2 Vendor programs

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

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

4.3 Impairment of inventories

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

4.4 Warranty provisions

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

4.5 Revenue from contracts with customers

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

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

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

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

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

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

4.7 Impairment of non-financial assets

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

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

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

4.8 Fair value of financial instruments

The Company measures financial instruments such as derivatives at fair value at each balance sheet date. Fair-value related disclosures for financial instruments are summarized in the note 33.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized at fair value in the financial statements on a recurring basis, the Company determines whether any transfers have occurred between the hierarchy levels by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.9 Control over related companies

Control is achieved, when the Company has:
- existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- Exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

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

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

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

4.11 Sub-lease classification

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

4.12 Leases - Estimating the incremental borrowing rate

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

5. Revenue from contracts with customers

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

Results for the year 2020*:

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

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

Results for the year 2019*:

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

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

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

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

6. Cost of sales

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

7. Distribution costs

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

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

8. Administrative expense

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

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

9. Other operating income

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

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

10. Other operating expense

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

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

11. Financial income

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

12. Financial expense

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

13. Intangible assets

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

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

14. Property, plant and equipment

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

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

14.1 Leases

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

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

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

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

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

Incremental borrowing rate used in lease liability calculation is 2.5%

Below disclosed the maturity analysis of lease liabilities:

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

The following are the amounts recognized in profit or loss:

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

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

14.1 Leases (cont'd)

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

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

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

15. Investments in related companies

Information about investments in subsidiaries

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

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

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

15. Investments in related companies (cont'd)

Information about subsidiaries

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

Profit/ (loss) for the year

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

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

16. Finished goods and goods for sale

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

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

17. Trade receivables

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

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

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

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

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

18. Other receivables

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

19. Prepaid expense and prepayments

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

20. Short-term deposits

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

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

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

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

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

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

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

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

21. Derivative financial instruments

21.1. Financial assets

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

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

21.2. Financial liabilities

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

In 2020, derivatives were held for trading.

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

22. Cash and cash equivalents

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

23. Share capital and reserves

23.1. Share capital

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

23.2. Share premium

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

24. Other loans

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

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

25. Loans from credit institutions

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

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

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

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

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

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

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

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

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

26. Other liabilities

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

27. Taxes payable

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

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

28. Accrued liabilities

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

29. Changes in financial liabilities from financing activities

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

30. Average number of employees

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

31. Management compensation

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

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

32. Pledges, guarantees and contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

33. Related party disclosures

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

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

Receivables and payables from transactions with related parties:

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

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

33. Related party disclosures (cont'd)

Current loans to related companies

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

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

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

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

Current loans from related parties

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

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

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

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

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

Terms and conditions of transactions with related parties

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

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

34. Fair value measurement

Fair value measurement hierarchy as at 31 December 2020:

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

Fair value measurement hierarchy as at 31 December 2019

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

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

35. Financial risk management

Geopolitical risk

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

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

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

35. Financial risk management (cont'd)

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

Multi-currency settlement risk

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

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

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

35. Financial risk management (cont'd)

Interest rate risk

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

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

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

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

35. Financial risk management (cont'd)

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

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

Legal risk

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

Capital management

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

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

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

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

36. Events after the end of the reporting period

Financing

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

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

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

Market conditions

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

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

According to the operational data, at the end of Q1 2021, ELKO Group sales and gross margin increased by 24% and 36% respectively in comparison to the same period of 2020. As to the sales, the Group has achieved its quarterly budgeted figure.

Impact of COVID-19

With the recent and rapid development of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.
In the Republic of Latvia as well as in many other countries starting March 2020 different restrictions to limit the COVID-19 spread came into effect leading to a considerable economic slowdown. The objective of these public policy measures was and is to contain the spread of COVID-19 outbreak and have resulted in operational disruptions.
In parallel, governments, including the Republic of Latvia, introduced various financial support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Company has not applied for such government assistance.
The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty though, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. Management's current expectations and estimates could differ from actual results.

Management will continue to monitor the situation closely and assess/seek additional measures/committed facilities as a fall back plan in case the period of disruption becomes prolonged.

The full impact of the COVID-19 pandemic on economic activity is still unknown and the situation is still developing. The Company's management believes that COVID-19 will not have material impact on the business operations after the reporting date. However, this assumption is based on the information available at the time of signing these financial statements and the impact of future events on the Company's ability to continue as a going concern may differ from the management's assessment.

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

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

19 April 2021

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Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the shareholders of Elko Grupa AS

Opinion

We have audited the accompanying financial statements of Elko Grupa AS (the Company) set out on pages 8 to 52 of the accompanying Annual Report, which comprise the statement of financial position as at 31 December 2020 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

Management is responsible for the other information. The other information comprises:

- The General information about the Company as set out on page 3 of the accompanying Annual Report;
- the Management Report as set out on pages 4 to 6 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report.

Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

ERNST & YOUNG BALTIC SIA
License No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153
Riga,
19 April 2021