



COMPANY DESCRIPTION
SECURED NOTES

25 February 2020

Important legal information



- This Company Description has been drawn up by the Management Board of AS Sakret Holdings (“Sakret”, hereinafter also the “Company” or the “Issuer”) and made public solely for the purposes of admission to trading of the Company’s Notes on the multilateral trading facility (an alternative market) First North operated by the NASDAQ Riga and may not be used for any other purposes.
- This Company Description or any information contained herein does not constitute an offer to sell or a solicitation of an offer to purchase any securities in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. Each violation of such restrictions may constitute a violation of applicable securities laws of such countries.
- This Company Description is drawn up based on information which was valid as of 25 February 2020.
- The Notes that are mentioned in this Company Description have their own Terms, which should be read and considered separately.
- The statements of fact, information, opinions and estimates contained in this Company Description have been obtained, compiled or arrived at by AS «Sakret Holdings», its founders and its associated companies from sources believed to be reliable and in good faith, but no representation or warranty expressed or implied is made as to their accuracy, completeness or correctness. In particular any numbers, valuations and schedules contained in this document are preliminary and are for discussion purposes only.
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- This document should not be used for advertising, broadcast or as product endorsement purposes or exploit the information available in this document to any third parties in any manner without the written consent of AS «Sakret Holdings».
- Investing into debt securities involves risks. While every care has been taken to ensure that this Company Description presents a fair and complete overview of the risks related to the Issuer, the operations of the Issuer and its subsidiaries, and to the Notes, the value of any investment in the Notes may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in the Company Description.

Management Board Statement



Hereby We, members of the board of AS «Sakret Holdings», Māris Ķelpis, Juris Grīvalds, Andis Ziedonis certify that, by paying sufficient attention to this purpose, the information included in the Company Description and in the Terms of the Notes is true, in accordance with the facts, and no information which may affect its meaning is concealed therein.

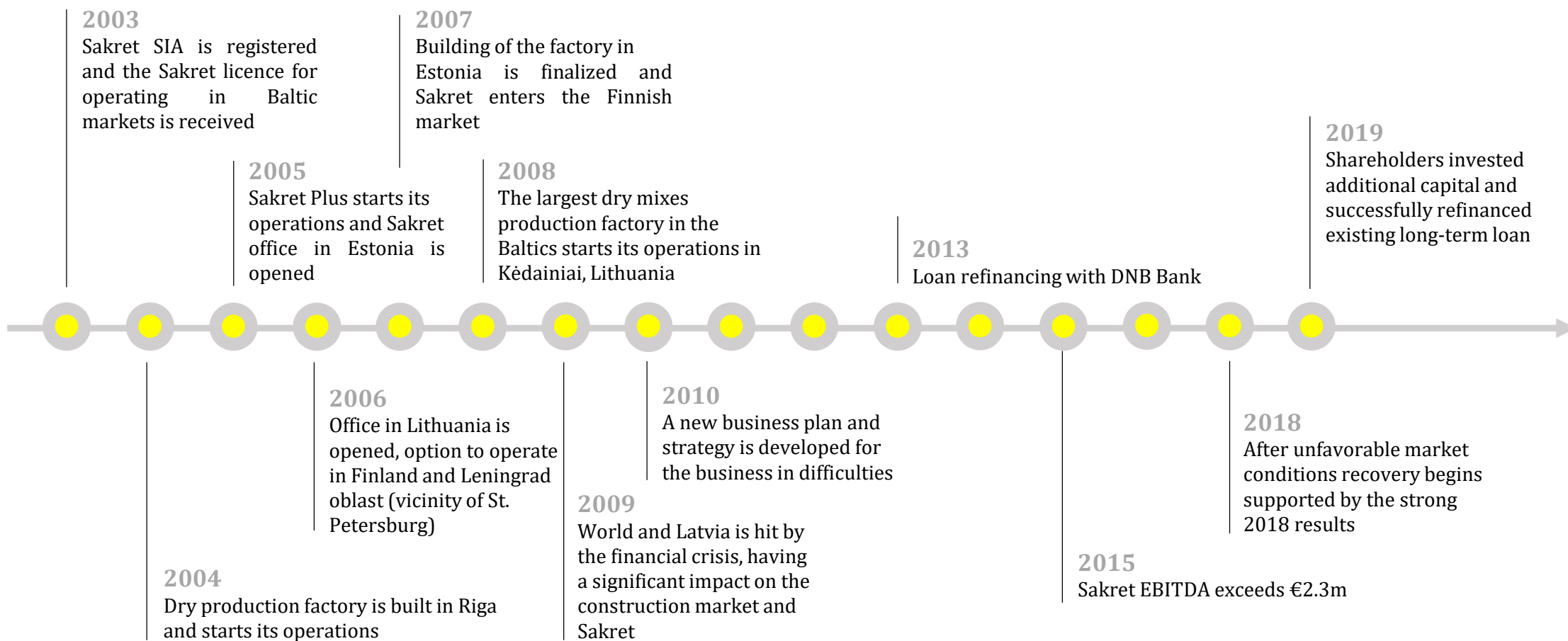
The Company Description contains references to the Terms of the Notes Issue dated as of 8 August 2019. Investor must read and consider the specified section of the Terms of the Notes Issue. The latest financial data is included in this Company Description, for additional information please see financial reports attached to this document.

Māris Ķelpis
Chairman of the Board

Juris Grīvalds
Member of the Board

Andis Ziedonis
Member of the Board

Company history



Business overview

- Founded in 2003, Sakret is a Latvia-based leading manufacturer of ready-mixed dry mortars.
- Main products include masonry and repair mortars, ETICS³, concrete and plasters.
- Products are distributed in Latvia, Lithuania, Estonia and Finland.
- The company has more than 25% market share in the Baltics with a leading position in it's key market segments.
- Total production capacity of Sakret plants is 500k tonnes per year, located in three countries, 150k in Estonia, 100k in Latvia and 250k in Lithuania.
- The company operates under the global Sakret license which was founded in 1966 by American and German entrepreneurs.
- Sakret holds exclusive distribution rights for the Baltic states and Finland where it currently operates, along with Belarus, Ukraine and Volga Federal district in Russia, which are not operational yet.
- The company has a leading position in profit margins compared to other Sakret franchises in EU.

KEY FINANCIALS

EUR '000	2016	2017	2018	2019 ¹
Revenue	17,648	19,299	21,266	21,870
growth %	-7.8%	9.4%	10.2%	2.8%
Gross profit	4,427	4,649	5,393	6,005
margin %	25.1%	24.1%	25.4%	27.5%
EBITDA	2,061	1,798	1,971	10,155²
margin %	11.7%	9.3%	9.3%	46.4%
Net profit	26	(221)	367	8,277
margin %	0.1%	-1.1%	1.7%	37.8%

SAKRET'S PRODUCTS



Masonry and repair mortars



ETICS



Concrete



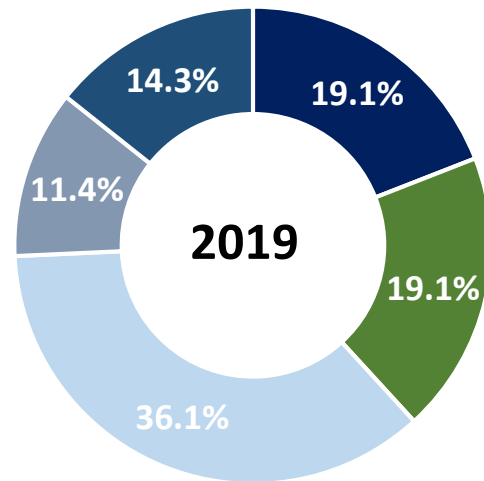
Plasters



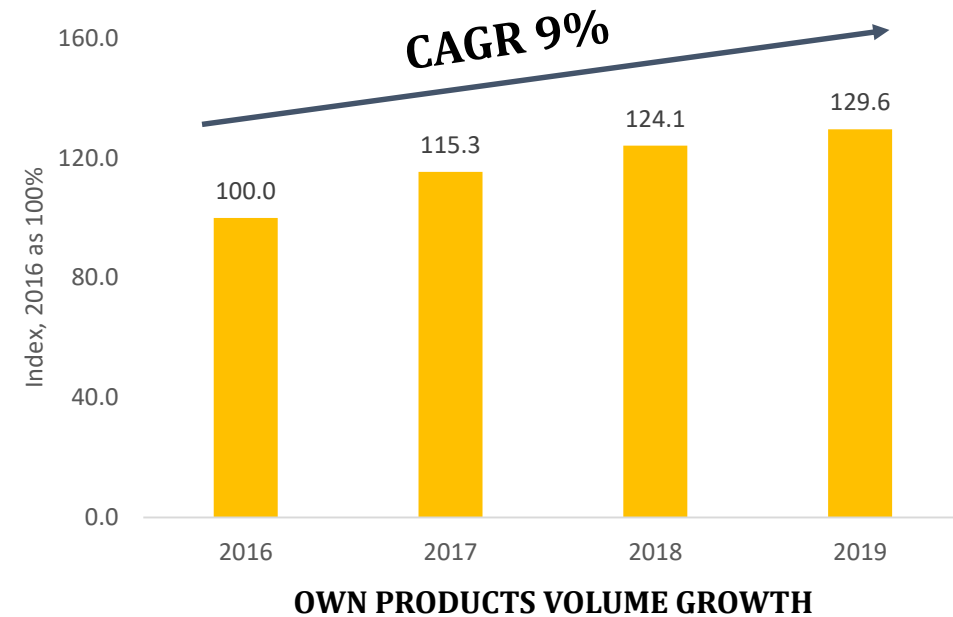
Coatings

1) Unaudited
 2) Includes one time income from debt value adjustment in the amount of 8 494 ths. EUR
 3) External thermal insulations component systems.

Own product breakdown



- Masonry and repairing mortars
- ETICS mortars
- Concrete, plasters and decorative plasters
- Tiles and floors
- Other own products



Production plants



RĪGA



KĖDAINIAI



PAIDE

YEAR OF CONSTRUCTION

2004

2008

2007

MAXIMUM CAPACITY

100,000 TONNES PER YEAR

250,000 TONNES PER YEAR

150,000 TONNES PER YEAR

PRODUCTION OF LIQUID MIXTURES



PRODUCTION UNDER ONE ROOF



STORAGE FACILITIES

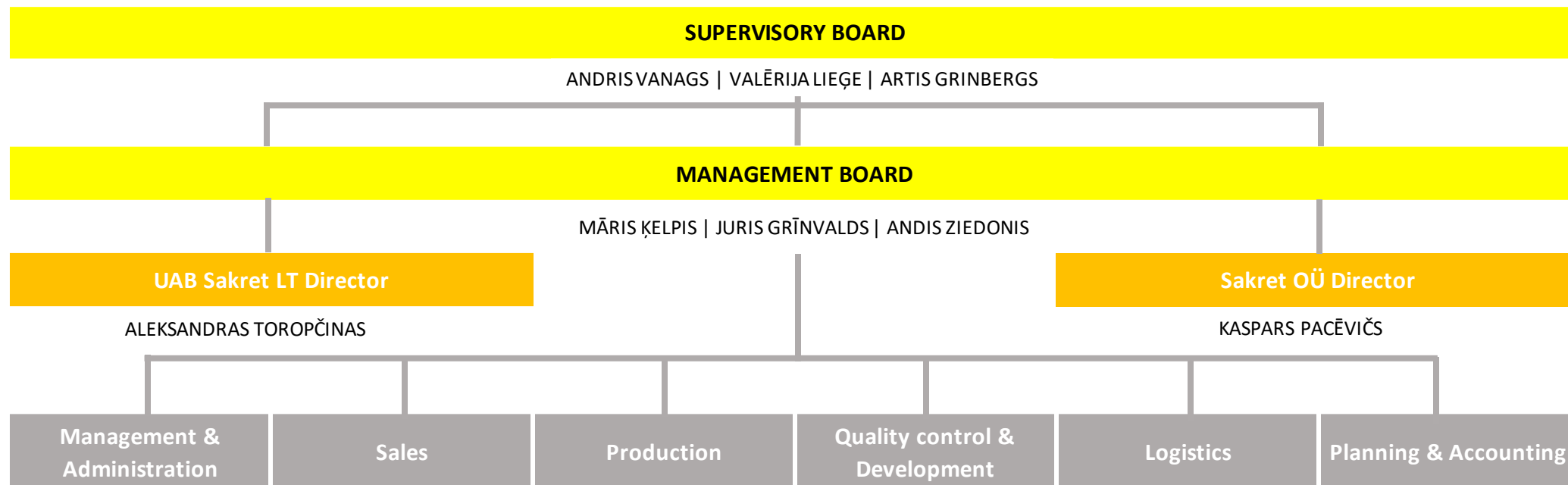
8 4,700 m² / 880 m² 8

8 6,000 m² / 1,000 m² 8

8 4,000 m² / 1,000 m² 8

8 with-out heating / with heating 8

Organizational structure



Note: At the end of 2019 Sakret had 140 employees

Management

**MĀRIS KĒLPIS****Founder, Chairman of the Management Board**

Māris is the founder of Sakret and the main visionary. He is the main decision maker, but has a strong belief in his management team and employees. He has held a controlling stake in Sakret since the foundation of the company and still follows the operations on a daily basis.

**JURIS GRĪNVALDS****Chief Commercial Officer**

From 1996 to 2003, worked in the Danish paint company SKALFLEX. Joined Sakret in early beginning of 2003 as Sales Director. Lead the construction project of the largest dry mixing plant in the Baltic states. Plant in Kėdainiai in Lithuania was opened in 2008. Currently coordinates Sakret sales in the Baltics and Scandinavian countries, as well as is the Director of Sakret Plus. Juris graduated from the Faculty of Civil Engineering of Latvia University of Agriculture. Currently serves as Board Member of Association of Building Materials Manufacturers.

**ANDIS ZIEDONIS****Chief Financial Officer**

Andis has more than 20 year experience as CFO. He joined Sakret in 2006 after 8 years in one of the largest press publishing house in the Baltics, where he started as an Economist and was promoted to Chief Economist and CEO. He also has experience in banks. Andis follows every number in Sakret books and is responsible identifying financial efficiencies, as well as for putting together the future financial plan. He holds a combined BSc in Engineering and Economics from Riga Technical University.

Supervisory board



ANDRIS VANAGS

Chairman of the Supervisory Board

Andris has spent long years working for construction material companies producing cement, concrete and other products. Prior experience include client service manager at AS Brocēni (currently Schwenk) and project manager at AS Brocēnu šiferis. Andris holds a BSc in chemical technology, MSc in silicate and high-temperature materials chemistry and technology from Riga Technical University and PhD in management science in the sub-branch of business management from Business University Turība. He acted as a Special Advisor to the former Prime Minister of Latvia, Māris Kučinskis, and is a Member of the Counsellors Convention of RTU and Member of the Board of Latvian Chamber of Commerce and Industry.



VALĒRIJA LIEGE

Member of the Supervisory Board

With more than 15 years' experience in corporate finance and change management, Valērija has led top Baltic companies through complex turnarounds, implementing operational and financial restructurings. She is Partner at Oaklins Latvia and has managed various M&A and capital raising projects and advised top regional banks and private equity houses. Valērija is an Executive Committee member of Oaklins International as well as a supervisory council member of International School of Riga and Lido AS. Valērija holds an MSc in Consulting and Coaching for Change (with distinction) from Oxford/HEC Paris, a BSc in Economics and Business Administration from the Stockholm School of Economics in Riga and is a CFA charter holder.

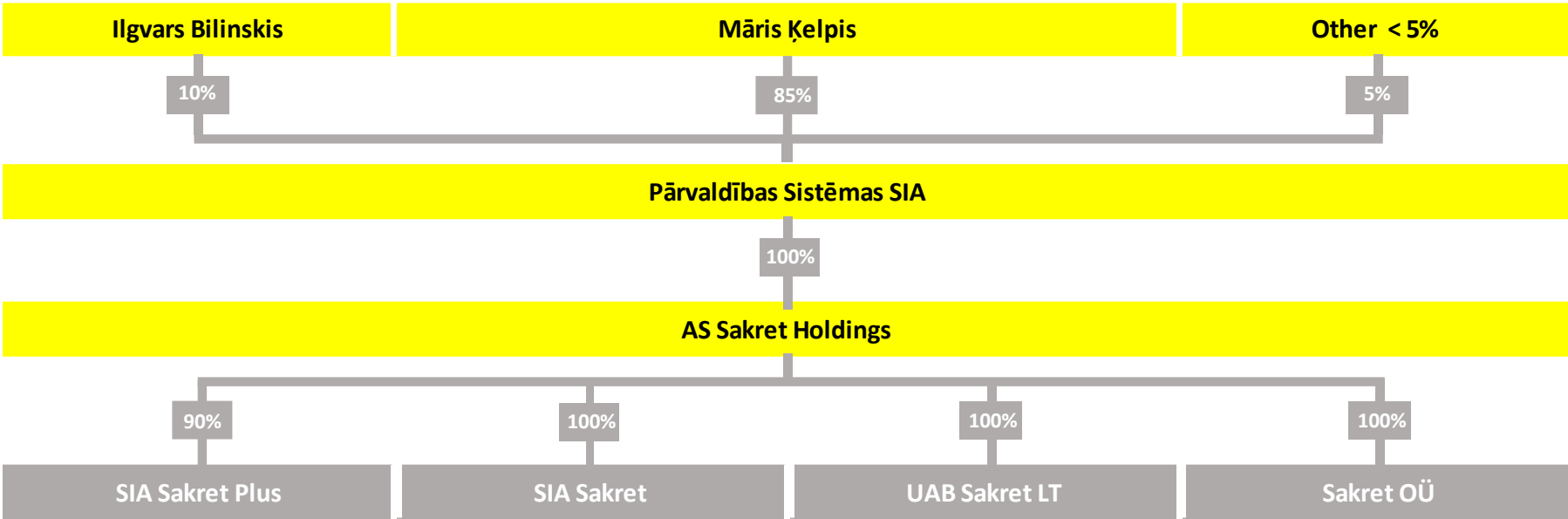


ARTIS GRINBERGS

Member of the Supervisory Board

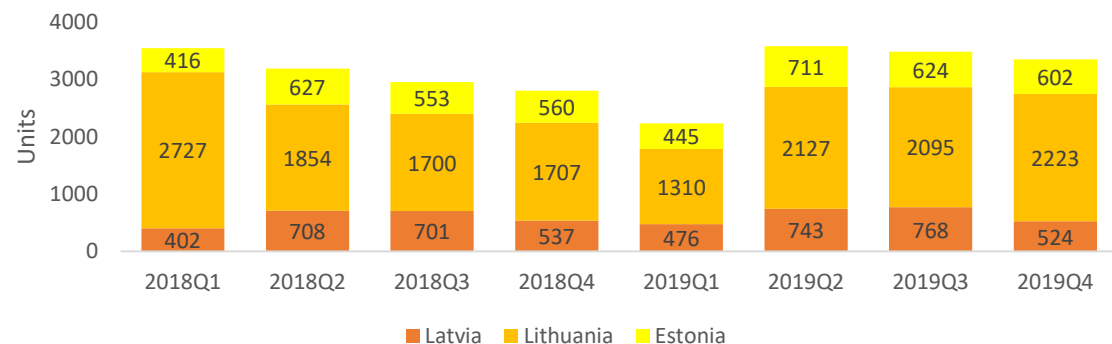
Artis Grinbergs served as an economic adviser to two prime ministers of the republic of Latvia. Previously he gained experience in manufacturing industrial building materials and participated in an apprenticeship program on global financial systems and economic development trends. Artis holds a BSc degree in Business and Economics from University of Latvia.

Shareholder structure

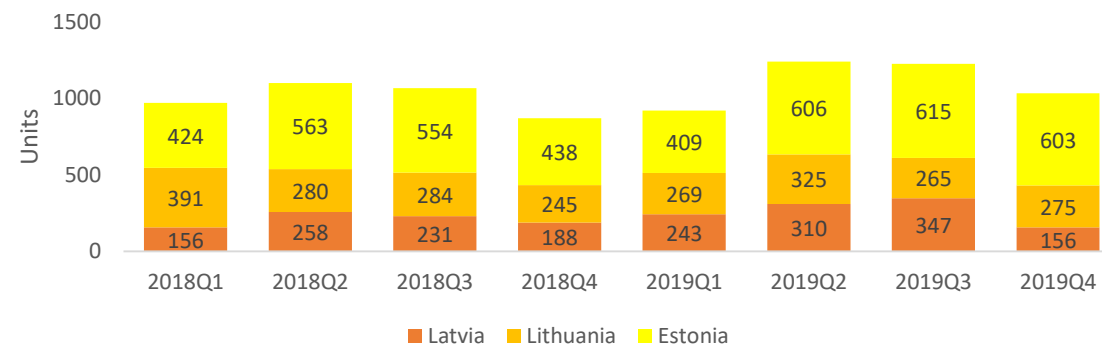


Market overview (1)

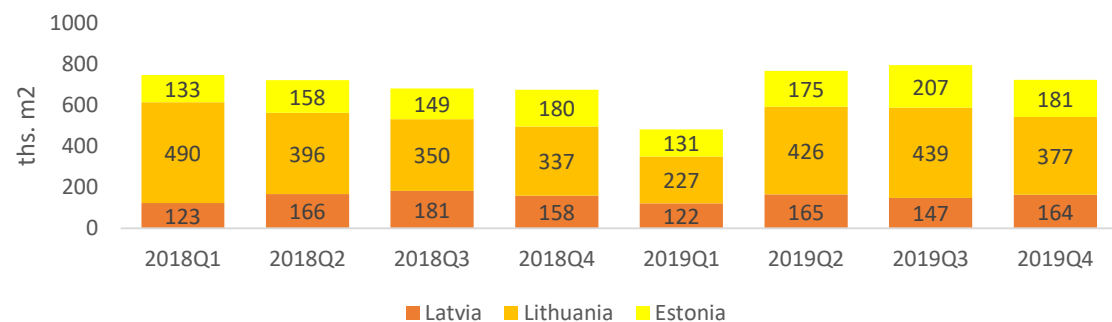
New Residential Building Permits



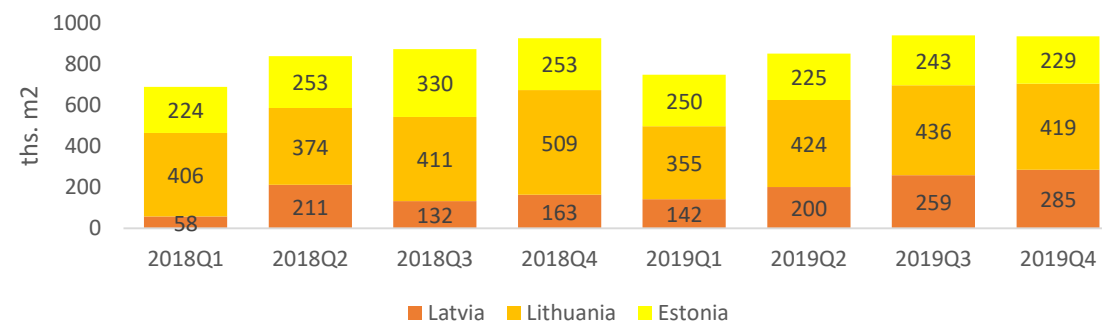
New Non-residential Building Permits



Floor Area of New Residential Permits



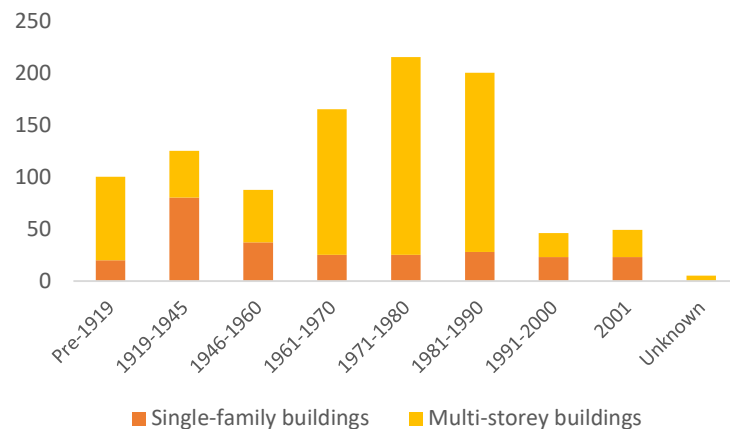
Floor Area of New Non-residential Permits



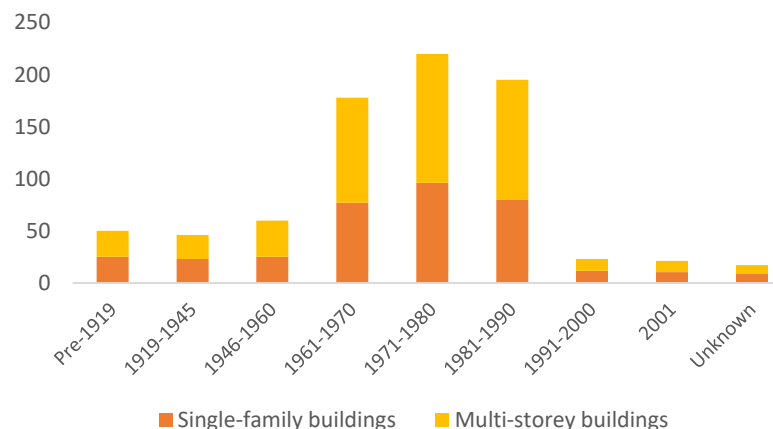
- Last 3 quarters of 2019 have seen a steady pickup in new building permits across all markets comparing to the same period in 2018.
- Most notable growth was in Lithuanian residential building permits +22.5% and Latvian non-residential building permits +20%.

Market overview (2)

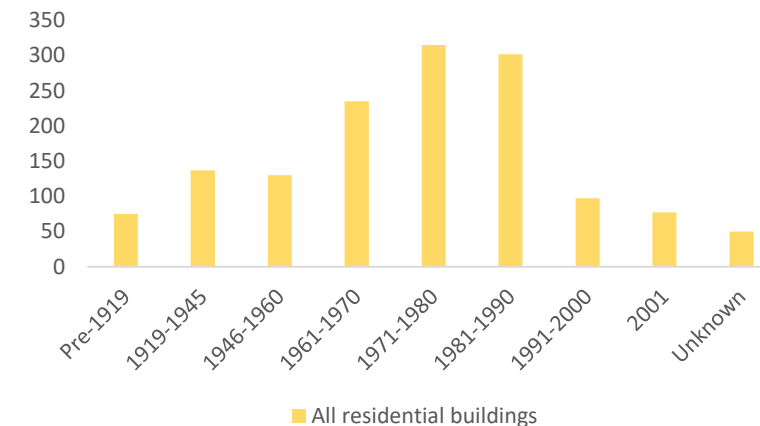
LATVIA



ESTONIA



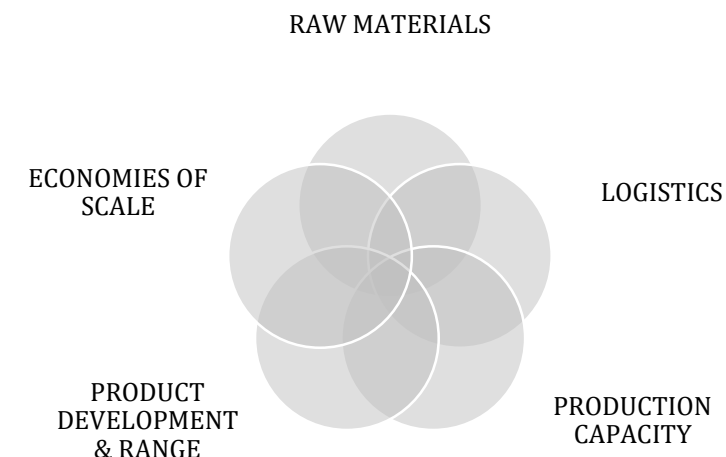
LITHUANIA



- Most of the residential buildings in the Baltics have been built during USSR with low energy efficiency standards and require maintenance.
- The current market is not renewing the buildings at their rate of depreciation thus creating a shortage of new housing stock and demand for renovation services.
- Favorable bank financing, low interest rates, greater household purchasing power and government support programs for first home buyers accelerate demand for new houses.
- These factors indicate of the expected residential construction growth, including heat insulation works on the outdated and energy inefficient buildings.

Competition

- Raw materials – a key cost component and their quality / specifics determine the recipe of the end product, its quality and margin. A strategic location of the plant is important in order to be located in close proximity to the suppliers.
- Production capacity – development of a new factory requires significant capital inflow, which often can reach the level of expected revenues over several years. However, available capacity ensures the ability to produce a wide range of products as well as capitalize on market growth;
- Product development & range – includes innovative solutions and adaptations of products (recipes) to specific developing and local market needs.
- Economies of scale – substantial capital investment and operating costs of the plant require high revenues in order to reach a break-even point.



KEY PLAYERS



Major clients

LATVIA (SAKRET SIA)



LITHUANIA (SAKRET LT)



ESTONIA (SAKRET OÜ)



Use of proceeds

- Historically, Sakret made expansion investments co-financed by Luminor (then DNB bank), including loans for construction of the factories in Lithuania (total investment 9.50m EUR) and Estonia (total investment 6.70m EUR).
- As a result of the financial crisis of 2008-2009, Sakret's core markets contracted and return on the loans was negatively affected.
- In 2013, a restructuring was done, forming a holding structure and renegotiating the repayment schedule, Sakret returned to positive cash flow.
- At the end of 2017, two Scandinavian banks – DNB and Nordea, decided to merge their Baltic operations. Luminor bank was created as a result. In 2018, the newly formed bank was sold to USA-based investment fund Blackstone.
- In 2018 Luminor bank revaluated its existing strategy. As a result, Luminor has decided to accept refinancing of Sakret loan at a discount due to the length of the repayment schedule and the internal procedures that do not allow to write-off part of the loan.
- In 2019 proceeds from the bond issue were used to refinance Luminor liabilities.

Transaction structure

EUR '000	pre-transaction	post-transaction
Long-term loan from Luminor bank	15,591	-
Long-term loan from BlueOrange bank	-	4,000
Bonds	-	3,000
Long-term liabilities with financial institutions	15,591	7,000
Credit-line limit from Luminor bank	1,000	-
Factoring limit from Luminor bank	1,000	-
Credit-line limit from BlueOrange bank	-	2,000
Factoring limit from BlueOrange bank	-	1,700
Short-term liabilities with financial institutions	2,000	3,700
TOTAL LIABILITIES WITH FINANCIAL INSTITUTIONS	17,591	10,700

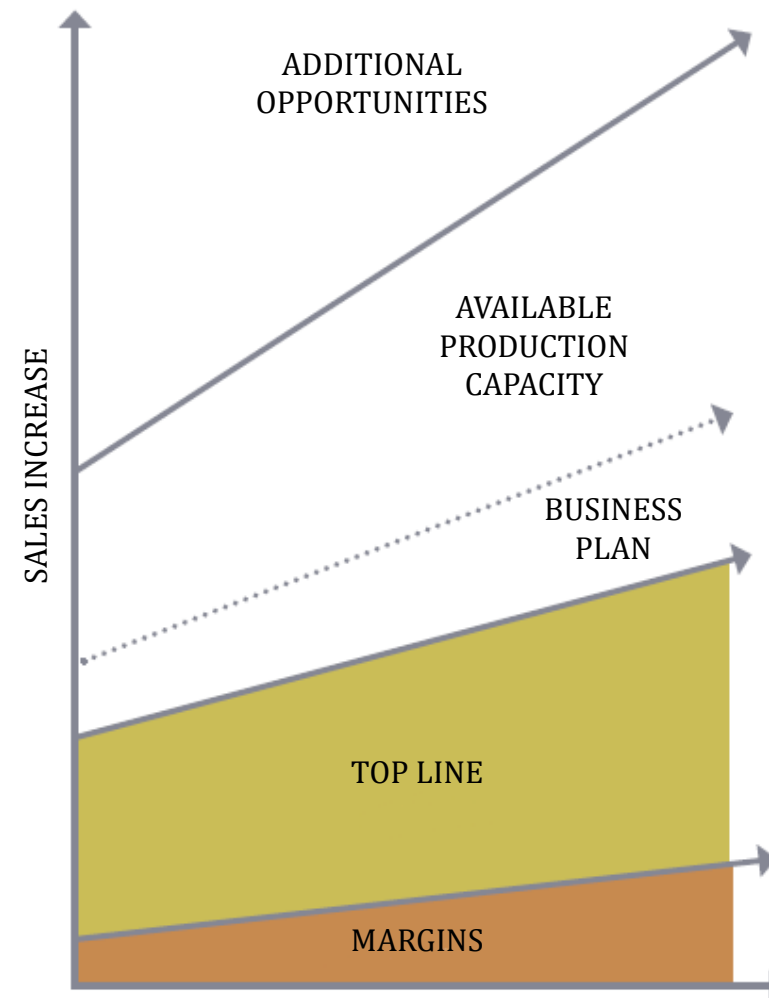
Achieving positive equity

The current shareholders invested 1.015m EUR in share capital. Due to the discount granted by Luminor bank, the equity has increased. Together with the shareholders contribution, the consolidated equity is now positive, allowing Sakret to participate in several grant and energy-efficiency increase programs.

EUR '000	2018	2019
Share capital	35	1,050
Reorganisation reserve	(8,492)	(8,492)
Other reserves	26	26
Retained earnings	259	8,498
Minority interest	194	232
TOTAL EQUITY	(7,978)	1,314

Future growth strategy

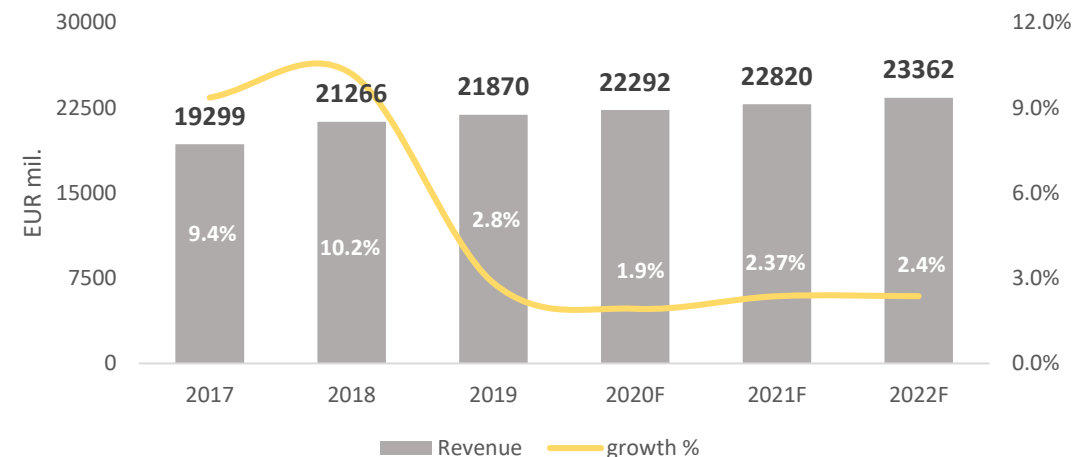
- Concrete, masonry and basic plasters – key product groups that take up most of the Sakret’s revenue share as well as market share in the key geographies. The market is expected to be fairly flat, however, it is key to retain the existing market share in order to remain the most competitive player.
- Given that manufacturing of building materials implies significant fixed costs (i.e. running of the factories), retention of revenues is the key driver behind margin sustainability – once the breakeven point has been reached, EBITDA growth accelerates significantly through any additional production.
- Growth strategy is oriented towards developing products that supplement the existing product line such as floor waterproofing and facade insulation systems. Another development route includes products with simpler manufacturing process and lower raw material requirement, thus allowing to increase production volumes.
- Insulation systems & accessories – a quickly growing market, given the aged residential building capital in the Baltics. Sakret is best positioned to capitalize on this growth, given its unique product portfolio and offering (i.e. ability to offer the ‘full package’ to its clients when it comes to insulation, including all of the necessary accessories);
- Flooring, glues and other segments – smaller segments of Sakret that are not top priority, however, pose additional growth opportunities in future, in case any of the ‘key’ segments would start to lag.
- Significant upside is available for Sakret, supported by both unused production capacity, market potential overseas and potential to relocate the existing Latvian factory next to a sand quarry.



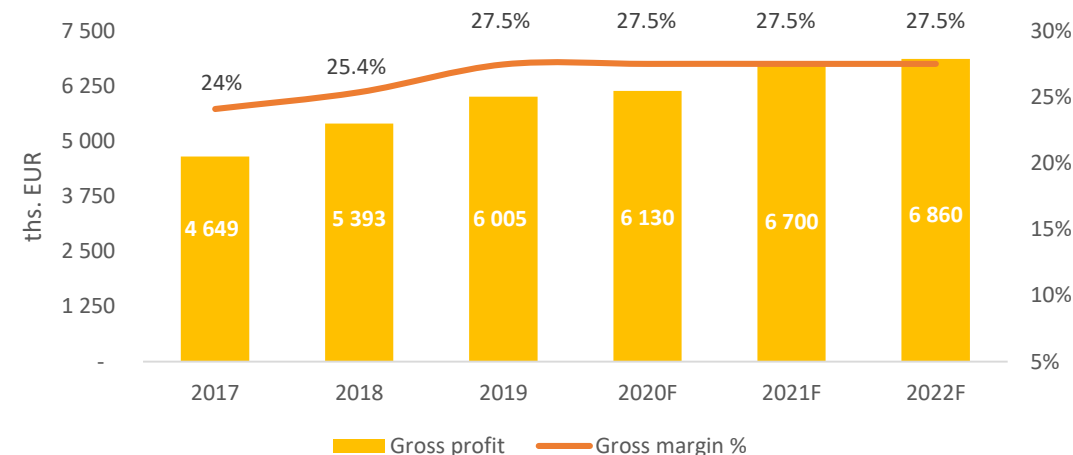
Financial forecast

- Over the next two years, Sakret is expected to record stable revenue CAGR of c.2.2%, reaching almost € 23.4 m in revenues by the end of 2022.
- While the largest markets (concrete, basic plasters, masonry) are expected to stagnate during this period, this will be offset by strong growth in heat insulation as well as further expansion in other higher priced markets, such as value added plasters.
- Sakret is continuously in discussions with its clients to increase the market price and is expecting to record sustainable growth in costs.
- It is conservatively expected that the gross profit margin will stabilize at 2019 level over the coming three years due to stagnation of the main product line, which will be compensated by introducing higher margin products.

REVENUE AND GROWTH FORECAST



GROSS PROFIT FORECAST



Financial statements

EUR '000	2016A	2017A	2018A	2019A ¹
Revenue of own production	16,152	17,639	19,611	20,622
<i>growth, %</i>	-7.8%	9.2%	11.2%	5.2%
Revenue from sales of cement	587	555	552	533
Revenue from sales of accesories	1,477	1,651	1,816	1,530
Other revenue	466	648	620	564
Discounts given	(1,037)	(1,195)	(1,333)	(1,379)
Revenue	17,648	19,299	21,266	21,870
<i>growth, %</i>	-7.8%	9.4%	10.2%	2.8%
Gross Profit	4,427	4,649	5,393	6,005
<i>margin, %</i>	25.1%	24.1%	25.4%	27.5%
Sales costs	(2,545)	(2,765)	(2,800)	(2,900)
Administration costs	(982)	(1,049)	(1,470)	(2,239)
Other income (expense)	83	(64)	(54)	8,427
EBITDA	2,061	1,798	1,971	10,155²
<i>margin, %</i>	11.7%	9.3%	9.3%	46.4%
Depreciation and amortisation	(1,077)	(1,028)	(902)	(862)
Interest income (expense)	(878)	(977)	(653)	(965)
Profit before tax	106	(205)	417	8,329
<i>margin, %</i>	0.6%	-1.1%	2.0%	38.1%
Net Profit	26	(221)	367	8,277
<i>margin, %</i>	0.2%	-1.1%	1.7%	37.8%

EUR '000	2016A	2017A	2018A	2019A ¹
Intangible assets	317	412	446	464
Fixed assets	12,231	11,424	10,628	9,867
Long-term financial assets	14	14	34	-
Total long-term assets	12,562	11,850	11,108	10,331
Inventory	2,515	2,292	2,287	2,140
Accounts receivable	2,182	2,730	2,951	2,340
Cash and cash equivalents	398	306	342	710
Total short-term assets	5,094	5,328	5,580	5,190
TOTAL ASSETS	17,656	17,178	16,688	15,521
TOTAL EQUITY	(8,125)	(8,345)	(7,978)	1,314
Long-term liabilities to financial institutions	17,341	16,641	-	2,200
Long-term liabilities to related parties	768	758	644	575
Other long-term liabilities	167	167	167	3,167
Long-term liabilities	18,276	17,566	811	5,942
Short-term liabilities to financial institutions	3,342	2,458	18,575	3,814
Short-term liabilities to related parties	625	422	469	258
Accounts payable	1,957	3,006	2,977	2,747
Other short-term liabilities	1,580	2,072	1,834	1,446
Short-term liabilities	7,505	7,958	23,855	8,265
TOTAL LIABILITIES	25,781	25,523	24,666	14,207
TOTAL EQUITY AND LIABILITIES	17,656	17,178	16,688	15,521

1) Unaudited

2) Includes one time income from debt value adjustment in the amount of 8 494 ths. EUR

Issue terms

ISSUER	AS SAKRET HOLDINGS
SECURITY TYPE	Secured Notes
ISIN	LV0000870038
ISSUE SIZE	EUR 3,790,000
TOTAL NUMBER OF NOTES	3790
NOMINAL VALUE	EUR 1,000
CURRENCY	EUR
ANNUAL INTEREST RATE	9%
COUPON FREQUENCY	Quarterly
DAY COUNT CONVENTION	European 30/360
FIRST SETTLEMENT DAY	30.08.2019
MATURITY DATE	30.08.2024
REPAYMENT SCHEDULE	Quarterly
CALL OPTION (EARLY REDEMPTION)	The Issuer can carry out full early redemption (call option), on 30 August 2021 by paying 90% for the Nominal amount, or on 30 August 2022 by paying 95% for the nominal amount or on 30 August 2023 by paying 100% for the Nominal amount. If the Issuer takes decision on the early redemption of Notes, the Issuer shall notify Noteholders at least 20 (twenty) Business Days prior to the redemption date of Notes.
PUT OPTION (EARLY REDEMPTION)	Each Noteholder has a right to demand full early redemption (put option) on 30 August 2023 at 90% for the Nominal amount. In order to exercise the put option the Noteholders have to submit an application to the Issuer or to its appointed agent not later than 40 (forty) Business Days prior the put option date.
ADMISSION TO TRADING	First North Nasdaq Riga
ARRANGER	BlueOrange Bank AS
CERTIFIED ADVISER	BlueOrange Bank AS
PAYING AGENT	Nasdaq CSD SE
USE OF PROCEEDS	Funds that are raised from Notes issue were used in refinancing of current loan liabilities of the Issuer and its subsidiaries.

Covenants (1)

From the Issue Date of Notes to the date of repayment thereof, the Issuer and its subsidiary companies (if any) shall undertake the following:

The Issuer and its subsidiaries shall continue business operations in the production of dry mixes and ready-made liquid mixes;

- Not to change the control of the Issuer (not to sell more than 50% of shares of the Issuer or its ultimate holding company);
- Not to commence Issuer's liquidation and not to reduce the equity capital;
- Any transactions with Related Persons shall be at market prices;
- In case of investment larger than EUR 100,000 the Issuer or its subsidiaries may invest in share capital of other companies only if the participation share is at least 51% and the Issuer or its subsidiaries retains full control of a company;
- Not to sell, present, change, rent, invest, or otherwise transfer into utilization the right to use the trademarks owned or otherwise utilized by the Issuer and/or its subsidiary companies, except if trademarks are sold, presented, changed, rented, invested, or otherwise transferred into utilization to the Issuer's subsidiary company, its managing company, or any companies dependent on the managing company, other enterprises or companies which have directly or indirectly acquired participation in the equity capital of the Issuer or in which the Issuer has acquired direct or indirect participation (if any), or except if trademarks are sold, presented, changed, rented, invested, or otherwise transferred into utilization to be used outside Latvia, Estonia and Lithuania;
- Not to pay out dividends, if only audited consolidated Net Debt/Equity indicator is below 3.5 and if such dividend payout is allowed by other credit agreements;
- To maintain consolidated DSCR (profit before interest payments, tax payments, depreciation and amortization calculation against all interest, coupon and principal payments) at least 1.1¹;
- To maintain both consolidated Net Debt/Equity (total interest bearing liabilities minus cash against equity) and Net Debt/EBITDA (total interest bearing liabilities minus cash against profit before interest payments, tax payments, depreciation and amortization calculation) indicators not exceeding:
 - 5.0¹, as of 31.12.2019
 - 4.5, as of 31.12.2020
 - 4.0, as of 31.12.2021
 - 3.5, as of 31.12.2022

¹ for DSCR, Net Debt/Equity and Net Debt/EBITDA calculations as of 31.12.2019, EBITDA and Equity will be adjusted to one-off refinancing expenses

Covenants (2)

- From the Issue Date, to prepare and publish unaudited consolidated quarterly reports as per Latvian accounting standards within 2 months after the reporting period;
- Starting from 31.05.2020, to prepare and publish unaudited consolidated quarterly reports as per International Financial Reporting Standards within 2 months after the reporting period;
- Until 31.05.2020, to prepare and publish audited consolidated annual report as per International Financial Reporting Standards for the year 2019 audited by Big4 (EY, Deloitte, PwC or KPMG). The respective auditor's opinion shall be unqualified;
- Starting from 01.01.2021, to prepare and publish audited consolidated annual report as per International Financial Reporting Standards within 4 months after the reporting period audited by Big4 (EY, Deloitte, PwC or KPMG). The respective auditor's opinions shall be unqualified;
- Proof of compliance with the financial covenants to be included in every audited consolidated annual report.

Note: The slide presents a short and fractional summary of certain sections of the Terms of the Notes issue. For full overview please refer to the Terms of the Notes

Investor rights

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

Collateral

- The Notes are secured with Collaterals established in accordance with the Collateral Agent Agreement executed between the Issuer and the Collateral Agent and the Collateral Agreements executed between the Collateral Agent and Sakret Group companies.
- Ranking of the Collaterals securing the Secured Obligations is in detail described in Annex 5 to the Terms of the Issue.

Restrictions on free circulation of the Notes

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

The Issuer is in default if at least one of the following occurs:

- The Issuer has failed to make a Coupon payment in full for more than 5 (five) Business Days following the planned payment date;
- The Issuer has failed to make a Nominal value payment in full for more than 5 (five) Business Days following the planned payment date;
- The Issuer has violated the conditions of the Section 5.5. “Covenants” of the Terms of the Notes;
- The Issuer has failed to service other liabilities in the amount of over EUR 100,000 for more than 5 (five) Business Days;
- Insolvency proceedings have been initiated against the Issuer;
- The Issuer has submitted an application for liquidation in the relevant state authorities in Latvia.

Note: The slide presents a short and fractional summary of certain sections of the Terms of the Notes issue. For full overview please refer to the Terms of the Notes

Risk factors related to the Issuer (1)

Changes in regulatory enactments	The Issuer carries out its production activity in Latvia, Estonia and Lithuania and most of the risks, which affect it, are related to the general economic situation in all three Baltic countries and regulatory enactments adopted by each country. The Issuer is headquartered in Latvia and has manufacturing plants in Latvia, Lithuania and Estonia via local subsidiaries, thus every subsidiary operates under the laws of the respective country and any significant changes in existing regulatory enactments or implementation of new regulations governing corporate taxation, employees' remuneration, natural resources taxation and others might negatively affect the business and solvency of the particular subsidiary and Sakret Group as a whole.
Macroeconomics risk	The Issuer is engaged in production of high-end quality dry and read-made liquid construction mixtures and construction chemicals in Latvia, Lithuania and Estonia. The majority of the Sakret Group revenue was generated by building material sales in Latvia, Lithuania and Estonia, remaining was generated by sales of services. The economic situation in all Baltic countries are assessed as stable which is supported by both macroeconomic data, such as GDP and employment indicators. Latvia and Lithuania currently have an A+ credit rating assigned by Standard & Poor's with a stable outlooks. Estonia currently has an AA- credit rating assigned by Standard & Poor's with a stable outlook. Financial results of Sakret Group depends on the stable macroeconomic situation in each of the Baltic countries.
Construction industry risk	The demand for dry and read-made liquid construction mixtures that Sakret Group produces is directly linked to the state of construction industry in Baltic countries. Following a rapid growth over the period of 2003 – 2008, the construction industry in the Baltics went into a nose-dive, with 2010 falling back to the level of 2002. Further years brought approximately 75% of cumulative growth until the industry faced another fall in 2016. Latvia is expected to face substantial GDP growth above the average EU level over the next couple of years. Real estate prices have been increasing in line with domestic income and the current low interest environment expand consumer capabilities in housing investments. In Estonia, construction confidence index has currently reached its post-crisis-high level, expecting further sector growth. Despite positive outlook on construction sector in Baltic countries, the decline of activity in the industry may adversely affect the Sakret Group's business and financial condition.
Competition risk	Sakret Group direct competitors across all Baltic countries are "Knauf", "Ceresit", "Saint-Gobain", and "Baumit". All Sakret's direct competitors are international companies and have one or more factories in Latvia, Lithuania and Estonia. In contrast to its competitors, Sakret Group is working exclusively for the Baltic market and is headquartered in the Baltics. The Issuer may have difficulties to compete with these competitors, thus to remain competitive and to protect profit margins, Issuer must offer new products that keep pace with industrial and technological developments and must respond to customer requirements on a timely basis. New technologies, changing commercial circumstances (for example, consolidation within a relevant sector), existing competitors (including those with a longer operating history, greater resources and/or broader range of products) and new entrants to the markets in which Issuer currently operates or markets in which Sakret Group might target for expansion may adversely affect the Group's business, financial condition, results of operations or prospects.
Production risk	Sakret Group operates 4 production plants in Riga (Latvia), Kedainai (Lithuania) and Paide (Estonia), thus any technological issues, human errors, incorrect planning or other issues directly connected with production processes might result in stoppage of production output of plants, which will negatively affect the financial results of the Sakret Group. Group is operating its production plants since 2004 and its employees have an extensive experience in managing production processes, thus any potential production risks are monitored and controlled.
Relations with key customers	Over the past years, the Issuer has maintained a moderate concentration among its customer base and this concentration has been stable over recent years. Sakret Group's clients are all the largest DIY chains in the Baltics, therefore, the concentration is directly linked with DIY market concentration. The loss of any of key customers and Issuer's inability to find adequate alternative customers on a timely basis, or at all, on commercially acceptable terms, could have a material adverse effect on its business, financial condition and results of operations.
Credit risk of clients	Issuer's customers have a period of time, generally 45 to 90 days after the date of invoice, depending on the type of customer, in which to effect payment. As a result, Issuer is subject to the risk that its customers will not pay or will delay the payment for the products they purchased. This credit exposure risk may increase due to liquidity or solvency issues experienced by Issuer's customers, for example, as a result of an economic downturn or an adverse change in their business. If Issuer is unable to collect payment for amounts invoiced from its customers, it could have a material adverse effect on its business, financial condition and results of operations. Issuer assigns credit to customers according to internal credit policy, which is developed, applying thorough internal analysis of Issuer's customers and seeking to diversify and limit its credit risk exposure.
Financial risk	After the refinancing of Luminor loan, BlueOrange Bank has provided EUR 4 million long-term loan, EUR 2 million overdraft facility, EUR 1.7 million credit line and EUR 3.0 million was raised via Notes Issue. Despite the Issuer's track record with credit institutions, there is a possibility that sources of financing may not be available in the amount required for the Issuer, or their conditions may be too unfavorable, which may significantly affect Issuer's ability to ensure sufficient financing for the company's growth.
Refinancing risk	Principal of Notes will be repaid as a lump sum at maturity date, therefore the Issuer has increased refinancing risk. The Issuer will seek to refinance Notes issue or look for other funding sources in order to decrease refinancing risk, but if Notes will not be refinanced before maturity date, as per the management estimates, the Issuer should be able to cover principal of Notes from Group's own cash flow. In case of additional capital investments would be required during the duration of Notes, which would decrease cash available for repayment of Notes at the maturity, Issuer plans to refinance part of the Notes lump sum using long-term liabilities, which will be significantly decreased by 2022, based on the repayment schedule.

Risk factors related to the Issuer (2)

Dependence on future employees	In the future, the Issuer's activities will be affected by its ability to attract, preserve, and motivate highly qualified and experienced personnel. There is competition for personnel with the relevant skills and experience in Baltic countries and it is comparatively high; however, the Issuer has successful experience in the field of personnel management, offering education, professional growth, and development possibilities, as well as different motivation programs to the employees. As of 2019, the Issuer's total number of employees was 140 persons. The majority of workers are involved in manufacturing processes.
Operational risks	Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful inner processes, personnel management, systems, or external circumstances. As of 2019, the number of Group's employees reached 140 persons; therefore, thorough personnel selection is carried out, accurate descriptions of job duties are compiled, division of duties is coordinated, constant investments are made within the IT system, which allows the Issuer to reduce operational risks.
Legal proceeding and risk of other claims	The Issuer may be adversely affected by contractual claims, complaints and legal proceedings arising from relationships with partners, customers, competitors or regulatory authorities, as well as negative publicity such proceedings might cause. Any such legal proceedings, complaints, contractual claims or negative publicity may materially affect the operational activities, financial situation and business results of the Issuer.

Risk factors related to Notes

Notes will be secured with Collaterals that will be subject to ranking described in Annex 5 of the Terms of the Notes	
Collateral risk	<p>Noteholders should be aware that since the Estonian subsidiary of the Issuer is giving upstream collaterals, such collaterals could be contested under Estonian law in a certain case. As per the provisions of Estonian Commercial Code, an OÜ (osaühing)-type company shall not amongst others guarantee a loan taken by its shareholder whose share represents more than 5 per cent of its share capital. However, the Estonian law stipulates that this prohibition does not apply to guaranteeing or securing a loan taken by the parent if grant of guarantee or security/collateral does not harm the financial status of the company or the interests of its creditors.</p> <p>If the Issuer fails to make the Coupon and / or Nominal payments in a timely manner, the Collateral Agent, acting in the interest of the Noteholders, will commence the Collateral enforcement proceedings according to the procedures described in Section 5.4. of the Terms of the Issue.</p>
Notes repayment risk	Notes will be secured with Collaterals established in accordance with the Collateral Agreements executed between the Collateral Providers and the Collateral Agent. In case of Issuer's insolvency, Noteholders have the same right to receive their investment as other creditors of the relevant group in accordance with applicable regulatory enactments.
Notes early repayment risk	Issuer has a call option, which means, that at certain dates during the term of Notes the Issuer may decide to execute an early repayment of Notes by paying back the principal at the certain price for the Nominal amount to the Noteholders. Noteholders should take into account that Notes early redemption price may be lower than Notes price on the secondary market.
Delisting risk	There is a risk, that Nasdaq Riga order to delist Notes from the First North before the maturity after the admission to trading took place, due to changes in FCMC opinion and Legal acts, including Nasdaq Riga regulations.
Price risk	Notes will be repaid for their Nominal Value at the maturity, yet the price in the secondary market may change significantly. Neither the Issuer, nor any other person undertakes to maintain a certain price level of Notes.
Liquidity risk	Neither the Issuer, nor any other person guarantees the minimum liquidity of Notes. Noteholders should take into account that there may be difficulties in selling Notes in the secondary market.
Tax risk	Tax rates and tax payment procedure applicable at the moment of purchase of Notes to the tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate for the increase in taxes to Noteholders, therefore Noteholders may receive smaller payments related to Notes.

Other material information

Transactions with related parties

- Transactions with related parties shall mean transactions between the Issuer and the following entities, controlled by members of the Management board and/or members of the Supervisory Board:
 - 1) SAKRET NORDEN OY
 - 2) ALBAU GROUP: ALBAU SIA, ALBAU UAB, ALBAU NORDE OU
 - 3) LM21 SIA

Legal proceedings (last year)

- There are no insolvency applications nor instituted insolvency proceedings against the Issuer.
- Management Board of the Issuer is not aware of any legal proceedings in connection with fraud or other economic violations in which Management Board Members or Supervisory Board Members or other employees of the Issuer have been involved.

Share incentive programs

- There are no share-based incentive programs or extraordinary bonus programs in place in the Issuer.

Significant patents

- The Issuer does not hold any significant patents

EUR	31.12.2017		31.12.2018	
	Receivables	Liabilities	Receivables	Liabilities
SAKRET NORDEN OY	63 053		39 433	
ALBAU SIA		159 814	26 140	39 922
ALBAU UAB	19 629		50 521	68 650
ALBAU NORDEN OU				15 417
LM21 SIA	2 686	201 721		261 335

EUR	2017		2018	
	Purchases	Sales	Purchases	Sales
SAKRET NORDEN OY		368 577		318 794
ALBAU SIA	1 328 454	21 937	1 108 204	21 604
ALBAU UAB	28 508		356 306	13 960
ALBAU NORDEN OU			47 062	70 960
LM21 SIA	338 852	7 720	311 648	2 220

Certified Adviser

«BlueOrange Bank» acts as the First North Certified Adviser for AS «Sakret Holdings»

- Official name: AS BlueOrange Bank
- Registration number: 40003551060
- Main field of activity: Banking services
- Address: Smilšu iela 6, Riga, LV-1050, Latvia
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As BlueOrange Bank is advising **AS «Sakret Holdings»** with the preparation of admission documents. The agreement is valid from the day of submitting the application for admission to trading on First North to Nasdaq Riga until the actual first trading day of the Notes on First North platform.

Annexes

Annex 1 - Audited consolidated annual report for 2017 (in English)

Annex 2 - Audited consolidated annual report for 2018 (in English)

Annex 3 - Audited non-consolidated annual report for 2017 (in Latvian)

Annex 4 - Audited non-consolidated annual report for 2018 (in Latvian)

Annex 5 – List of collaterals

Annex 6 – Terms of the Notes Issue (without annexes)



Contact information

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