



Joint stock company ELKO Grupa

Unified registration number: 40003129564

Annual report for the year ended 31 December 2019
(27th financial year)

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

Riga, 2020

The annual report was reviewed and approved
by the general shareholders' meeting on 22 April 2020

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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 The par value per share is EUR 1. * Changes registered on 20 January 2020
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 2019
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 2019 was EUR 473,8 million, up by 11.5% from the year 2018. 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 1.3 million in 2019. Compared to the year 2018, the net profit fell by EUR 6.4 million, chiefly because of lower dividend revenue that totaled EUR 1.7 million and interest income constituting EUR 724 thousand, compared to EUR 1.3 million and EUR 3.2 million respectively in 2018.

Significant events during the reporting year

In July 2019, the Company extended the syndicate credit line.

In August 2019 call option for Gandalf Distribution AB was used and 15% of shares were purchased by ELKO Grupa AS.

In December 2019 SWISS SPOL. s r.o. acquired residual 41% of ARAŠID spol. s r.o. and became 100% owner. As a result of the deal Group effectively has gained 51% of the ownership.

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 2020, 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.

Events after the reporting period

Starting from late 2019 and up to the report issuing date World economy is struggling with consequences of pandemic of Covid-19.

As a result of pandemic many businesses experiencing decrease in operations, which lead to employees lay off and decrease in purchasing activities.

Management report (cont'd)

For more detailed evaluation of situation triggered by pandemic see Note 36 Events after the reporting period in the financial statements.

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 Kazakhstan LLP, Elko RUS Ltd., Gandalf Distribution AB, AST Balts SIA, TD Absolut LLC. The subsidiary Elko Marketing Ltd. owns 99.99% of the shares in ELKO Ukraine LLC. The subsidiary WESTech spol. s r.o. owns 51% of the shares in Swiss Spol s r.o. and 100% 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.

Events after balance sheet date

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 2019.

Profit distribution proposed by the Board

The Board has suggested that the profit earned by the Company for the year 2019 should be transferred to retained earnings for investments and maintaining financial stability of the Company.

Egons Mednis

Chairman of the Board,
President

Riga, 17 April 2020

The annual report was approved by the general shareholders' meeting on 22 April 2020.

Chairman of the general shareholders' meeting

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 2019 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.

Egons Mednis
Chairman of the Board

Riga, 17 April 2020

Financial statements

Statement of comprehensive income

	Notes	2019 EUR	2018 EUR
Revenue from contracts with customers	5	473,792,898	424,914,533
Cost of sales	6	(465,450,321)	(417,103,431)
Gross profit		8,342,577	7,811,102
Distribution costs	7	(2,895,872)	(2,678,408)
Administrative expense	8	(12,096,653)	(11,497,291)
Other operating income	9	8,931,654	9,821,110
Other operating expense	10	(276,534)	(484,198)
Operating profit		2,005,172	2,972,315
Finance income	11	2,513,302	16,596,195
Finance costs	12	(3,161,097)	(11,904,799)
Profit before tax		1,357,377	7,663,711
Corporate income tax		-	-
Net profit for the year		1,357,377	7,663,711
Other comprehensive income		-	-
Total comprehensive income		1,357,377	7,663,711

The accompanying notes on pages 13 to 51 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Olga Ivanova

Chief Accountant

Riga, 17 April 2020

Statement of financial position

	Notes	31.12.2019 EUR	31.12.2018 EUR
ASSETS			
Non-current assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights		194,439	4,821
Total intangible assets:	13	194,439	4,821
Property, plant and equipment:			
Leasehold improvements	14	164,374	66,808
Equipment and machinery	14	-	5,732
Communications and IT equipment	14	313,306	368,241
Other fixtures and fittings, tools and equipment	14	149,974	49,093
Right-of-use assets	14.1	13,792,711	-
Construction in progress	14	169,950	259,682
Total property, plant and equipment:		14,590,315	749,556
Non-current financial assets:			
Investment in related companies	15	13,639,137	13,617,950
Total non-current financial assets:		13,639,137	13,617,950
Total non-current assets:		28,423,891	14,372,327
Current assets			
Inventories:			
Finished goods and goods for sale	16	37,344,928	28,165,196
Prepayments for goods		1,788,460	1,693,514
Total inventories:		39,133,388	29,858,710
Receivables			
Trade receivables	17	18,350,453	13,278,507
Receivables from related companies	33	83,349,753	72,922,001
Other receivables	18	2,898,960	1,583,412
Total receivables:		104,599,166	87,783,920
Prepaid expense and prepayments	19	325,877	249,733
Current financial assets:			
Current loans to related companies	33	4,090,620	21,775,128
Short-term deposits	20	1,779,081	1,690,669
Derivative financial instruments	21	-	528,005
Total current financial assets:		5,869,701	23,993,802
Cash and short-term deposits:	22	1,111,901	1,071,309
Total current assets:		151,040,033	142,957,474
TOTAL ASSETS		179,463,924	157,329,801

Statement of financial position

	Notes	31.12.2019 EUR	31.12.2018 EUR
EQUITY AND LIABILITIES			
Equity:			
Share capital	23	9,784,790	9,784,790
Share premium		4,973,947	4,973,947
Retained earnings			
a) brought forward		7,804,365	36,550,576
b) for the year		<u>1,357,377</u>	<u>7,663,711</u>
Total equity:		<u>23,920,479</u>	<u>58,973,024</u>
Liabilities:			
<i>Non-current liabilities:</i>			
Other loans	24	18,530,512	-
Lease liabilities	14.1	<u>12,661,912</u>	<u>-</u>
<i>Total non-current liabilities:</i>		31,192,424	-
<i>Current liabilities:</i>			
Loans from credit institutions	25	30,793,752	25,091,713
Other loans	24	11,227,859	-
Lease liabilities	14.1	<u>1,259,697</u>	<u>-</u>
Loans from related companies	33	16,650,000	13,070,000
Contract Liabilities		380,517	523,629
Trade payables		62,472,520	56,887,883
Payables to related companies	33	360,359	1,015,984
Other liabilities	26	294,202	341,962
Accrued liabilities	28	900,743	1,382,140
Undrawn dividends of previous years		4,932	-
Derivative financial instruments	21	<u>6,440</u>	<u>43,466</u>
<i>Total current liabilities:</i>		<u>124,351,021</u>	<u>98,356,777</u>
Total liabilities:		<u>155,543,445</u>	<u>98,356,777</u>
TOTAL EQUITY AND LIABILITIES		<u>179,463,924</u>	<u>157,329,801</u>

The accompanying notes on pages 13 to 51 form an integral part of these financial statements.

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

17 April 2020

Statement of changes in equity

	Share capital	Share premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
Balance as at 31 December 2017	9,784,790	4,973,947	41,556,971	56,315,708
Prior year adjustment	-	-	(6,395)	(6,395)
Dividends paid *	-	-	(5,000,000)	(5,000,000)
Profit for the year	-	-	7,663,711	7,663,711
Balance as at 31 December 2018	9,784,790	4,973,947	44,214,287	58,973,024
Balance as at 1 January 2019	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	9,784,790	4,973,947	9,161,742	23,920,479

The accompanying notes on pages 13 to 51 form an integral part of these financial statements.

* In 2018, the Company's shareholders decided to pay dividends from retained earnings amounting to EUR 5 000 000 (EUR 0.51 per share).

** In the reporting year, 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.

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

17 April 2020

Statement of cash flows

	Notes	2019 EUR	2018 EUR
Cash flow to / from operating activities			
Profit before tax		1,357,377	7,663,711
Adjustments for:			
Amortization and depreciation	13, 14, 14.1	1,227,860	433,139
Changes in provisions and allowances		81,246	8,593,055
(Profit) or loss from fluctuations of currency exchange rates		(43,386)	(63,315)
Income from dividends	11	(1,746,744)	(13,225,618)
Loss from disposal of intangible assets		-	300,000
Penalties paid		1,471	1,927
Interest income	11	(766,558)	(3,370,577)
Interest expense	12	3,467,188	3,451,291
Gain/ loss on financial instruments (net)		490,979	(938,419)
Gain/ loss on disposal of property, plant and equipment		3,232	(3,842)
		4,122,665	2,841,352
Changes in working capital			
Decrease/ (increase) in trade receivables		(18,284,373)	(11,653,238)
(Increase)/ decrease in inventories		(9,274,678)	(2,987,885)
Increase/(decrease) in trade and other payables		(384,249)	1,813,139
Cash generated from operations		(23,820,635)	(9,986,632)
Interest received		42,154	41,234
Interest paid		(1,471)	(1,927)
Corporate income tax paid		-	(405,296)
Net cash flows to/ from operating activities		(23,779,952)	(10,352,621)
Cash flows to/ from investing activities			
Acquisition of shares in related companies	15	(21,187)	(1,766,434)
Purchase of property, plant and equipment and intangible assets		(680,968)	(685,890)
Proceeds from sale of property, plant and equipment		17	26,008
Loans repaid		18,033,819	26,186,063
Deposits made		(74,023)	(773,467)
Interest received		724,394	3,857,675
Dividends received		1,755,957	13,216,405
Net cash flows to/ from investing activities		19,738,009	40,060,360
Cash flows to/ from financing activities			
Proceeds from borrowings		14,483,611	3,570,000
Repayment of borrowings		-	(14,373,776)
Lease payments (principal)	14.1	(1,015,000)	-
Debt securities (bonds) issued		-	(8,000,000)
Repayment of borrowings (finance leases)		-	(18,090)
Interest paid (bonds)		-	(547,204)
Interest paid		(3,161,087)	(2,904,079)
Dividends paid		(6,224,989)	(6,836,250)
Net cash flows to/ from financing activities		4,082,535	(29,109,399)
Net cash flow for the year		40,592	598,340
Cash and cash equivalents at the beginning of the reporting year		1,071,309	472,969
Cash and cash equivalents at the end of the reporting year		1,111,901	1,071,309

The accompanying notes on pages 13 to 51 form an integral part of these financial statements.

Egons Mednis

Olga Ivanova

Chairman of the Board,
President

Chief Accountant

17 April 2020

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 2019 were approved by a resolution of the Company's Board on 17 April 2020.

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 2019 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 2019 through 31 December 2019.

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 17 April 2020, 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:

- (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).

	31.12.2019	31.12.2018
	EUR	EUR
1 EUR	1.00000	1.00000
1 USD	1.12340	1.14500
1 CHF	1.08540	1.12690
1 RUB	69.95630	79.71530
1 RON	4.78300	4.66350
1 SEK	10.44680	10.25480
1000 KZT	426.8500	439.3700

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 market place (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

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
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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

Policy applicable before 1 January 2019

In the comparative period, the Company as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. In case of finance leases, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Company's

statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

Company as a lessor

As a lessor, the Company determines at lease inception whether the lease is a finance lease or an operating lease. If the Company determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. 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 other operating revenue in the statement of profit or loss. 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.

The accounting policies applied by the Company as a lessor in the comparative period were not different from IFRS 16.

Policy applicable after 1 January 2019

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 that have a lease term of 12 months or less from the 1 January 2019 date 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 2019 and 2018, 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.

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 2019:

- **IFRS 16: Leases**
IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The management has assessed the new standard and applying the modified retrospective approach estimated that both right-of-use assets and lease liabilities of EUR 12,567 thousand (USD 14,389 thousand) should be recognized as at 1 January 2019.
- **IFRS 9: Prepayment features with negative compensation (Amendment)**
The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements.
- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The management has assessed this interpretation and concluded that implementation thereof does not have an effect on the Company's financial statements.
- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The management has assessed these amendments and concluded that implementation thereof does not have an effect on the Company's financial statements as the Company does not have such contracts.
- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. 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 and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
 - **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
 - **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

3.1 Standards issued but not yet effective

The Company has not applied the below disclosed standards and interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

- **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 standard has not been yet endorsed by the EU. The management has not assessed this amendment yet.

- **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. These amendments have not yet been endorsed by the EU. The management has not assessed this amendment yet.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. 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. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). 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 provided 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 Management has assessed the amendments and concluded, that there will be no impact on the Company's financial statement.

- **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. 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 the 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 2019 amounted to EUR 8,715 thousand (2018: EUR 6,819 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 2019, 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% risk.

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 2019 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 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

	2019 EUR	2018 EUR
Wholesale of computer components	473,523,262	424,579,870
Other sales income	269,636	334,663
	473,792,898	424,914,533

Results for the year 2019*:

	Latvia EUR	Other countries * EUR	Total 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.

Results for the year 2018*:

	Latvia EUR	Other countries * EUR	Total EUR
Wholesale of computer components	39,282,324	430,308,226	469,590,550
Other sales income	-	334,663	334,663
Discounts granted	(793,976)	(44,216,704)	(45,010,680)
Net turnover	38,488,348	386,426,185	424,914,533

* 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 64% (in 2018: 70%) 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 contractual obligations that would not have been fulfilled by 31 December 2019.

6 Cost of sales

	2019 EUR	2018 EUR
Acquisition cost of goods sold	546,223,878	466,073,851
Delivery of purchased goods	2,505,422	2,530,104
Non-refundable taxes paid on the acquisition of goods	510,599	260,974
Discounts received	(83,789,578)	(51,761,498)
	465,450,321	417,103,431

7 Distribution costs

	2019 EUR	2018 EUR
Delivery of sold goods	958,127	894,691
Warehouse expenses	414,430	363,850
Distribution of goods	1,274,352	1,221,531
Advertising	224,554	176,636
Loss on warranty replacement	20,632	18,405
Other distribution costs	3,777	3,295
	2,895,872	2,678,408

8 Administrative expense

	2019 EUR	2018 EUR
Wages and salaries	6,332,741	5,898,799
Office maintenance*	290,311	1,200,013
Statutory social insurance contributions	1,529,092	1,480,355
Professional fees	681,741	566,979
Depreciation and amortization (Notes 14 and 14.1)	1,277,748	433,142
Recruitment and training expenses	182,030	131,513
Bank charges	130,191	122,513
Transport expenses	299,709	345,395
Business trips	244,257	176,810
Communication expenses	193,162	202,425
Computer maintenance expenses	122,249	111,180
Write-offs of doubtful and bad receivables	154,246	256,369
Receivables insurance	179,372	154,008
Other administrative expenses	371,364	312,436
Other staff costs	108,440	105,354
	12,096,653	11,497,291

* In 2018, this item included lease and utilities costs. In 2019, IFRS 16 was adopted whereby causing the changes in the lease accounting principles (see Note 14.1).

9 Other operating income

	2019 EUR	2018 EUR
Income from services provided***	3,055,417	2,287,779
Income from management services**	5,376,428	2,257,870
Gain on disposal of property, plant and equipment	-	3,843
Currency exchange gain*	467,172	5,118,482
Other income	32,637	153,136
	8,931,654	9,821,110

*Starting from 2019, the Company has not used any hedging instruments to mitigate RUB risk fully passing this function to the Russian subsidiaries. In 2018 net income from RUB-related risk hedging was EUR 3.2 million.

** Since 1 January 2018, the Company issues invoices to the subsidiaries for the purchase of goods and administrative services. The increase in 2019 against the year 2018 can be explained by the transfer of the currency exchange gain of EUR 3,2 million within the framework of management service fees. The currency exchange result was EUR 90 thousand.

*** Including EUR 1,974,544 income from marketing activities (2018: EUR 1,843,953).

10 Other operating expense

	2019 EUR	2018 EUR
Advertising contracts with subsidiaries	119,743	126,309
Donations	6,500	-
Penalties	1,471	1,927
Corporate income tax	15,905	7,018
Other expense	66,912	42,918
Tax paid abroad	66,003	6,026
Loss on disposal of intangible assets	-	300,000
	276,534	484,198

11 Financial income

	2019 EUR	2018 EUR
Interest income from intra-group current loans	724,394	3,283,351
Dividends from the subsidiary ELKO MARKETING LIMITED	-	12,636,405
Dividends from the subsidiary WESTech Spol s.r.o.	1,020,000	510,000
Dividends from the subsidiary ELKO Lietuva	-	79,213
Dividends from the subsidiary ELKO Trading Malta Limited LLC	726,743	-
Late payment interest	42,155	41,234
Interest accrued on bank account balances	10	8
Gain on changes in the fair value of current financial instruments, net (see also Note 22)	-	45,984
	2,513,302	16,596,195

12 Financial expense

	2019 EUR	2018 EUR
Interest on loans from credit institutions	2,305,560	2,596,682
Interest on loans from related companies	549,446	307,251
Interest on finance leases	-	154
Interest on lease liabilities	306,091	-
Impairment of financial assets *	-	8,453,508
Interest on debt securities	-	547,204
	3,161,097	11,904,799

* On 13 March 2019, AS ELKO GRUPA decided to establish an allowance for the loan to ELKO Mobile Ltd of EUR 7,653,826 and equity investment of EUR 799,682 (see Note 4.7 and 4.8).

13 Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Licenses, and similar rights with indefinite useful life*	Total
Cost			
As at 1 January 2018	318,291	300,000	618,291
Disposals	(4,740)	(300,000)	(304,740)
As at 31 December 2018	313,551	-	313,551
Amortization			
As at 1 January 2018	308,219	-	308,219
Charge for the year 2018	511	-	511
As at 31 December 2018	308,730	-	308,730
Net carrying amount as at 31.12.2018	4,821	-	4,821
Cost			
As at 1 January 2019	313,551	-	313,551
Additions	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 2019	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
Net carrying amount as at 31.12.2018	4,821	-	4,821

* On 2 June 2015, AS ELKO Grupa signed an agreement with DL Distributors OU on the acquisition of DELL business in Estonia for EUR 300,000. By acquiring DL Distributors OU business, ELKO Group expanded its product portfolio in the Baltics and obtained a license to distribute DELL products also in Latvia and Lithuania.

In 2018, goodwill did not correspond to the purchase price paid for distribution rights. Impairment was assessed by considering DELL product turnover and gross mark-up applied to the DELL products and to operating profit margin; as a result, the acquisition cost was written off in 2018.

The cost of fully amortized intangible assets at 31 December 2019 was EUR 305 thousand (as at 31 December 2018: EUR 293 thousand).

14. Property, plant and equipment

	Leasehold improvements EUR	Equipment and machinery EUR	Other fixtures and fittings, tools and equipment EUR	Communications and IT equipment EUR	Prepayments for property, plant and equipment EUR	Total EUR
Cost						
As at 1 January 2018	69,084	161,889	231,468	1,918,865	-	2,381,306
Additions	39,317	-	37,687	349,204	259,682	685,890
Sales	-	(62,247)	-	(2,851)	-	(65,098)
Disposals	-	-	(50,758)	(96,325)	-	(147,083)
Write-offs	-	-	-	(6,953)	-	(6,953)
As at 31 December 2018	108,401	99,642	218,397	2,161,940	259,682	2,848,062
Depreciation						
As at 1 January 2018	28,373	121,294	207,900	1,510,019	-	1,867,586
Charge for the year 2018	13,220	16,289	12,162	386,217	-	427,888
Sales	-	(43,673)	-	(2,244)	-	(45,917)
Disposals	-	-	(50,758)	(96,325)	-	(147,083)
Write-offs	-	-	-	(3,968)	-	(3,968)
As at 31 December 2018	41,593	93,910	169,304	1,793,699	-	2,098,506
Net carrying amount as at 31.12.2017	66,808	5,732	49,093	368,241	259,682	749,556
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
Sales	-	-	-	-	-	-
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 2019	25,053	5,732	26,229	342,093	-	399,107
Sales	-	-	-	-	-	-
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 31.12.2019	164,374	-	149,974	313,306	169,950	797,604
Net carrying amount as at 31.12.2018	66,808	5,732	49,093	368,241	259,682	749,556

The cost of fully amortized intangible assets at 31 December 2019 was EUR 1,993 thousand (as at 31 December 2018: EUR 1,678 thousand).

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 EUR	Total EUR
As at 1 January 2019	12,567,101	12,567,101
Additions	2,063,417	2,063,417
Depreciation expense	(837,807)	(837,807)
As at 31 December 2019	13,792,111	13,792,711

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

	2019 EUR
As at 1 January 2019	12,567,101
Additions	2,063,417
Accretion of interest	306,091
Payments	(1,015,000)
As at 31 December 2019	13,921,609

Incremental borrowing rate used in lease liability calculation is 2.6%

Below disclosed the maturity analysis of lease liabilities:

	31.12.2019.			31.12.2018.		
	Non-current portion EUR	Current portion EUR	Total EUR	Non-current portion EUR	Current portion EUR	Total EUR
Accrued lease liabilities**	12,661,912	1,259,697	13,921,609	-	-	-
	12,661,912	1,259,697	13,921,609	-	-	-

The following are the amounts recognized in profit or loss:

	2019 EUR
Depreciation expense of right-of-use assets	837,807
Interest expense on lease liabilities	306,091
Expense relating to short-term and low value leases (included in cost of sales)	196,581
Total amount recognized in profit or loss	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.

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 is EUR 315,000 (2018: EUR 197,000)

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

	2019
	EUR '000
Within one year	267
After one year but not more than five years	974
More than five years	922
	2,163

15. Investments in related companies

Information about investments in subsidiaries

Company	Carrying amount of equity interest in subsidiaries		Equity interest in subsidiaries	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR	EUR	%	%
ELKO Eesti AS	100,164	100,164	100	100
WesTech 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	1,250	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	3,600,000	100	100
TD Absolut LLC *	1,709,500	1,709,500	100	100
Gandalf Distribution AB**	4,227,889	4,205,705	100	85
ELKO Ukraina LLC***	24	24	0.1	0.1
ELKO Mobile Ltd ****	799,682	799,682	51	51
		(799,682)		
ELKO Mobile Ltd ****	(799,682)		51	51
ELKO Kazakhstan LLP	49,231	49,231	100	100
	13,639,137	13,617,950		

* On 3 June 2018, AS ELKO Grupa decided to acquire 100% of the shares in its subsidiary TD Absolut LLC.

** On 4 July 2017, the Company acquired 85% of the shares in Gandalf Distribution AB, one of the leading distributors of computer and electronic equipment in Sweden. Under the terms of the share purchase agreement, the Company acquired the residual 15% of the shares on 29 August 2019.

*** Elko Grupa AS owns 0.01% of the shares in ELKO Ukraina LLC, the other 99.99% are owned by the subsidiary ELKO Marketing Ltd.

**** In 2018 an allowance for the investment in ELKO Mobile Ltd of EUR 799,682 was established.

15. Investments in related companies (cont'd)

Information about subsidiaries

Company	Address	Equity	
		31.12.2019 EUR	31.12.2018 EUR
ELKO Trading Switzerland AG	c/o Domanda Verwaltungs GmbH, Grafenaustasse 5, 6302 Zug, Switzerland	9,175,167	7,782,445
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	8,810,455	280,350
ELKO Eesti OU	Pärnu mnt 141, Kesklinna district, Tallinn city, Harju county, 11314, Estonia	64,194	41,322
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	52,953	23,802
ELCO LLP	Kazakhstan, 050000 Almaty, Medeuskiy district, Akhmedyarova street 25A, 5th floor	(777,979)	(571,290)
ELKOTech Romania SRL	18 Copilului Street, 1st floor, district 1, Bucharest, Romania	2,549,538	2,824,529
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	(1,396,063)	(4,291,386)
ELKO RUS LTD	143441, Moscow, Krasnogorsky region, Putilkovo, 69 km MKAD, office 506, Russian Federation	12,822,353	2,724,351
AST Balts SIA	Toma 4, Riga, Latvia, LV-1003	3,709,326	3,712,966
Gandalf Distribution AB	Kyrkogatan 3, 222 22 Lund, Sweden	3,795,220	3,265,588
ELKOTEX d.o.o.	ulica Magistrova 1, 1000 Ljubljana, Slovenia	2,389,129	2,167,249
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	22,324,046	18,645,983
ELKO Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	(7,472,926)	(7,419,551)
ELKO Polska Sp.Z.o.o.	ul. Wroclawska 7, miesjc. Bielany Wroclawska 7, kod-55-040, poczta Bielany Wroclawska, Poland	24,671	9,629
Elko Trading Malta Limited LLC	Level 3, Suite No.2089, Tower Business Centre, Tower Street, Swatar, BKR 4013, Malta (lidz 11.03.2019). 60/2, Melita Street, Valletta VLT 1122, Malta (no 12.03.2019)	1,113,876	727,081
TD Absolut LLC	Warsaw highway, house 138, 117519 Moscow, Russian Federation	9,101,584	11,793,121
Company	Address	Profit/ (loss) for the year	
		2019 EUR	2018 EUR
ELKO Trading Switzerland AG	c/o Domanda Verwaltungs GmbH, Grafenaustasse 5, 6302 Zug, Switzerland	1,247,421	3,426,348
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	8,554,443	269
ELKO Eesti OU	Pärnu mnt 141, Kesklinna district, Tallinn city, Harju county, 11314, Estonia	22,872	13,464
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	29,151	21,001
ELCO LLP	Kazakhstan, 050000 Almaty, Medeuskiy district, Akhmedyarova street 25A, 5th floor	(271,318)	(404,450)
ELKOTech Romania SRL	18 Copilului Street, 1st floor, district 1, Bucharest, Romania	(205,924)	(753,704)
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	3,428,090	1,539,503
ELKO RUS LTD	143441, Moscow, Krasnogorsky region, Putilkovo, 69 km MKAD, office 506, Russian Federation	9,384,606	2,898,357
AST Balts SIA	Toma 4, Riga, Latvia, LV-1003	(3,641)	3,606,813
Gandalf Distribution AB*	Kyrkogatan 3, 222 22 Lund, Sweden	581,936	258,946
ELKOTEX d.o.o.	ulica Magistrova 1, 1000 Ljubljana, Slovenia	236,317	187,383
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	5,678,063	2,552,790
ELKO Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	89,595	(4,594,428)
ELKO Polska Sp.Z.o.o.	ul. Wroclawska 7, miesjc. Bielany Wroclawska 7, kod-55-040, poczta Bielany Wroclawska, Poland	14,802	8,547
Elko Trading Malta Limited** LLC	Level 3, Suite No.2089, Tower Business Centre, Tower Street, Swatar, BKR 4013, Malta (lidz 11.03.2019). 60/2, Melita Street, Valletta VLT 1122, Malta (no 12.03.2019)	1,084,899	703,628
TD Absolut LLC	Warsaw highway, house 138, 117519 Moscow, Russian Federation	4,112,216	2,336,984

15. Investments in related companies (cont'd)

*In July 2017, AS ELKO Grupa acquired 85% of the shares in Gandalf Distribution AB. The Company acquired the residual 15% of the shares on 29 August 2019. The acquisition allowed the Company to significantly expand its range of products and presence on the Nordic market.

** In January 2018, the Company registered an investment in Elko Trading Malta Limited LLC worth of EUR 1,250. AS ELKO Grupa owned 100% of the shares in the said company. On 23 December 2019, part of the capital USD 1,130 was returned; as a result at 31 December 2019 the investment value was USD 282.50 (EUR 251.50).

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

	31.12.2019	31.12.2018
	EUR	EUR
Goods at warehouses	22,664,319	19,267,761
Goods in transit	14,680,609	8,897,435
	37,344,928	28,165,196

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

	31.12.2019	31.12.2018
	EUR	EUR
Trade receivables, gross	18,625,948	13,437,795
ECL allowances	(275,495)	(159,288)
	18,350,453	13,278,507

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 2019 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	0.10%	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

31 December 2018

31 December 2018			Trade receivables						Total
Contract assets	Current	<30 days	30–60 days	61–90 days	91- 120 days	121-150 days	151-180 days	>181 days	
EUR									
Expected credit loss rate	0.20%	1,7%	17.00%	30.00%	37.00%	38.00%	40.00%	40.00%	1,19%
Estimated total gross carrying amount at default	12,480,092	643,463	5,150	14,680	3,997	2,188	7,433	280,791	13,437,794
Expected credit loss	26,736	10,898	880	4,411	1,474	826	2,941	111,122	159,288

18. Other receivables

	31.12.2019	31.12.2018
	EUR	EUR
VAT overpaid in the Netherlands (see Note 27)	2,331,618	1,227,989
VAT overpaid in Latvia (see Note 27)	100,066	55,013
Overpayment of statutory social insurance contributions (see Note 27)	618	-
Overpayment of corporate income tax (see Note 27)	149,048	164,953
Overpayment of personal income tax (see Note 27)	1,106	860
Other receivables	316,504	244,623
	2,898,960	1,583,412

19. Prepaid expense and prepayments

	31.12.2019	31.12.2018
	EUR	EUR
Prepayments	84,635	91,536
Other expenses	241,242	158,197
	325,877	249,733

20. Short term deposits

	31.12.2019	31.12.2018
	EUR	EUR
Short-term deposits	1,779,081	1,690,669
	1,779,081	1,690,669

On 7 October 2016, AS Luminor Bank (former AS Nordea Bank AB) issued a guarantee on behalf of AS ELKO Grupa on 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 up to 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.

On 10 December 2018, AS Luminor Bank issued a guarantee on behalf of AS ELKO Grupa as a security for 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 issued a bank guarantee on behalf of AS ELKO Grupa on 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.

21. Derivative financial instruments

21.1 Financial assets

	31.12.2019 EUR	31.12.2018 EUR
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges	-	528,005
- foreign exchange forwards		
Total financial instruments at fair value through profit or loss	-	528,005
Total financial assets	-	528,005

In 2019, a foreign exchange forward contract for the sale of RUB 0.5 million against USD (2018: purchase of EUR 6.8 million) with an average weighted maturity of 24 days. The fair value of foreign exchange forwards is calculated at market rates (see Note 35).

21.2 Financial liabilities

	2019 EUR	2018 EUR
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges	(6,440)	(43,466)
- foreign exchange forwards		
Total financial instruments at fair value through profit or loss	(6,440)	(43,466)
Total financial liabilities	(6,440)	(43,466)

In 2019, 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 short-term deposits

	31.12.2019 EUR	31.12.2018 EUR
Cash at bank	1,111,901	1,071,309
	1,111,901	1,071,309

23. Share capital and reserves

23.1 Share capital

As at 31 December 2019, the Company's registered and paid-in share capital was EUR 9,784,790 (31 December 2018: EUR 9,784,790) and consisted of 9,784,790 shares (31 December 2018: 9,784,790 shares). The par value per share is EUR 1.00 (31 December 2018: 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

	31.12.2019				31.12.2018		
	Non-current portion	Current portion	Total		Non-current portion	Current portion	Total
	EUR	EUR	EUR		EUR	EUR	EUR
Loan from shareholders *	18,530,512	11,227,859	29,758,371	-	-	-	-
	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. The loan bears interest at 5% and matures on 31 January 2021.

25. Loans from credit institutions

	31.12.2019	31.12.2018
	EUR	EUR
Credit line from AS Swedbank *	-	33,495
Credit line from AS Luminor Bank**	4,364,913	9,635,472
Credit line from OP Corporate Bank plz Latvia branch ***	16,544,307	91,606
Credit line from AS Deutsche Bank New York ****	9,876,883	15,327,098
Credit card balance	7,649	4,042
	30,793,752	25,091,713

* On 6 August 2019, AS ELKO Grupa signed an agreement amending the credit line agreement with AS Swedbank, dated 5 November 2015. According to the amendments, the base interest rate remained 3-month LIBOR USD and the margin remained at 4.5% per annum. Until 31 March 2020, the maximum limit remained USD 8,500,000, for the period from 1 April 2019 to 31 July 2020 the maximum limit was set at USD 2,000,000. The credit line matures on 31 July 2020.

** On 30 August 2019, 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/EONIA EUR and the margin remained at 3.2% per annum. The maximum overdraft limit remained USD 30,498,963 (2018: USD 30,498,963). The overdraft matures on 31 July 2020.

*** On 30 August 2019, 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 3.45% per annum. The maximum limit was increased to USD 20,000,000 (2018: USD 20,000,000). The overdraft matures on 31 July 2020.

**** 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. The total trade payable financing limit as at 31 December 2019 was USD 20,000,000. The agreement is valid until 20 December 2020. The base interest rate is 3-month LIBOR USD, while the margin is 3.75% per annum.

The effective interest rate on bank loans as at 31 December 2019 was 4.93% (31 December 2018: 5.15%).

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

26. Other liabilities

	31.12.2019	31.12.2018
	EUR	EUR
Bonuses for the reporting year	288,362	312,804
Other liabilities	5,840	29,158
	294,202	341,962

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 31.12.2017	240,343	-	-	-	-	-	240,343
(Receivable) as at 31.12.2017	-	(40,939)	(3,063,646)	-	(860)	-	(3,105,445)
Calculated for 2018	7,018	471,574	(4,536,734)	2,105,708	1,088,641	1,111	(862,682)
Refunded	-	104,378	6,372,391	-	-	-	6,476,769
Paid in 2018	(412,314)	(480,000)	-	(2,105,708)	(1,088,641)	(1,111)	(4,087,774)
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)

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

28. Accrued liabilities

	31.12.2019	31.12.2018
	EUR	EUR
Vacation pay reserve	325,342	305,550
Other accrued expense	538,776	487,048
Interest accrued on loans from related companies	3,850	4,450
Interest accrued on loans from shareholders	32,775	-
Accrued expense for the acquisition of shares *	-	585,092
	900,743	1,382,140

* On 4 July 2017, the Company acquired 85% of the shares in Gandalf Distribution AB, one of the leading distributors of computer and electronic equipment in Sweden. Under the terms of the share purchase agreement, the Company has an option to purchase 15% of the shares for SEK 6,000,000 (EUR 585,092) until 30 September 2019. On 29 August 2019, the Company acquired the remaining 15% of the shares.

29. Changes in financial liabilities from financing activities

	01.01.2019	Cash flow	Change in exchange rate	Change in fair value	Other	31.12.2019
	EUR	EUR	EUR	EUR	EUR	EUR
Other loans (non-current portion)	-	-	-	-	31,192,424	31,192,424
Loans from credit institutions (current portion)	25,091,713	6,082,556	(380,517)	-	-	30,793,752
Debt securities	-	-	-	-	-	-
Other loans (current portion)	-	-	-	-	12,487,556	12,487,556
Loans from related companies	13,070,000	3,580,000	-	-	-	16,650,000
Undrawn dividends	-	-	-	-	4,932	4,932
Derivative financial instruments	43,466	-	-	(37,026)	-	6,440
Total	38,205,179	9,662,556	(380,517)	(37,026)	43,684,912	91,135,104

30. Average number of employees

	2019	2018
Average number of employees during the reporting year:	259	254

31. Management compensation

	2019 EUR	2018 EUR
Board Members		
- Salaries	223,708	372,021
- Statutory social insurance contributions	53,891	89,620
	277,599	461,641

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 and guarantees

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 effective 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 effective 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 up to 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 effective 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 2019, the guarantee was amended by extending its maturity up to 12 June 2020.

On 7 October 2016, Luminor Bank AS (former AS Nordea Bank AB) issued a guarantee on behalf of AS ELKO Grupa on the liabilities of the Company's subsidiary Elko Ukraine LLC towards PJSC Credit Agricole Bank. On 25 September 2019, the maturity of the guarantee was extended up to 5 November 2020 and its amount increased to USD 3,000,000.

On 2 June 2010, AS Swedbank issued a guarantee on behalf of AS ELKO Grupa on the liabilities of the Company towards Intel Corporation (UK) Ltd amounting to USD 1,000,000. On 6 December 2018, the bank guarantee was amended by extending its maturity up to 30 December 2020.

On 18 March 2019, AS ELKO Grupa issued a guarantee to PJSC Credit Agricole Bank on the liabilities of the subsidiary ELKO Ukraine LLC amounting to USD 3,000,000. The guarantee is effective until 15 May 2020.

On 10 December 2018, Luminor Bank AS issued a guarantee on behalf of AS ELKO Grupa on the liabilities of the Company towards Corum Origin amounting to EUR 761,250. On 19 December 2019, the bank guarantee was amended by extending its maturity up to 19 December 2020.

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 18 October 2019, the guarantee was amended setting its amount at USD 10,000,000. The guarantee is effective until 14 November 2020.

On 26 July 2019, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd on the liabilities of the subsidiary ELKOTech Romania amounting to SRL 6,000,000 EUR. The guarantee is effective until 14 November 2019.

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. The guarantee is effective until 31 December 2020.

32. Pledges and issued guarantees (cont'd)

On 28 February 2018, AS ELKO Grupa issued a guarantee to FSP Power Solutions GmbH on the liabilities of the subsidiary ELKO Rus LTD amounting to USD 100,000. On 13 November 2019, the guarantee was amended by extending its maturity up to 31 December 2020.

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 by extending its maturity up to 31 December 2019.

On 14 March 2019, Luminor Bank AS issued a guarantee on behalf of AS ELKO Grupa on the liabilities of the Company towards P14 SIA amounting to EUR 126,448.15. The bank guarantee is effective until 28 December 2020.

On 6 September 2018, AS ELKO Grupa issued a performance guarantee to Alfa Bank JSC on the liabilities of the subsidiary ELKO Rus LTD. The guarantee is effective 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 effective 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 effective 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 effective 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 effective 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 effective until 27 March 2023.

On 16 September 2019, AS ELKO Grupa issued a guarantee to Sberbank PJSC on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 1,600,000,000. The guarantee is effective until 12 June 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 700,000,000. The guarantee is effective 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 effective until 7 February 2025.

On 27 May 2019, AS ELKO Grupa issued a guarantee to VTB Bank PJSC on the liabilities of the subsidiary ELKO Rus LTD amounting to RUB 1,400,000,000. The guarantee is effective until 26 May 2024.

On 27 May 2019, AS ELKO Grupa issued a guarantee to VTB Bank PJSC on the liabilities of the subsidiary TD Absolut amounting to RUB 1,100,000,000. The guarantee is effective until 26 May 2024.

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 308 million (2018: EUR 259 million). In 2019, payments for these supplies were made by the contractual due dates.

The Company had the following transactions with related parties:

Company	Sales -		Purchases -	
	goods, services, other		goods, services, other	
	transactions	transactions	transactions	transactions
	2019	2018	2019	2018
	EUR	EUR	EUR	EUR
WESTech Spol s.r.o.	4,607,002	3,899,140	2,759,773	2,341,382
ELKOTech Romania SRL	13,647,190	16,097,911	902,255	555,471
ELKOTEX d.o.o.	6,080,629	7,628,663	70,323	492,779
ELKO Lietuva UAB	67	205	506,283	546,951
ELKO Mobile Ltd	126,070	3,288,258	-	159,046
ELKO Trading Switzerland AG	21,325,333	101,774,373	-	1,605,393
Elko Trading Malta Limited LLC	220,171,052	127,184,691	-	315,311
ELKO Eesti OU	-	-	407,238	382,831
ELKO Polska Sp.Z.o.o.	-	-	339,839	184,417
ELKO Ukraine LLC	19,777,908	70,996	-	-
ELKO Marketing Ltd	-	(12,583,515)	2,187,055	-
Gandalf Distribution AB	22,017,446	11,749,546	1,877,879	26,270
AST Balts SIA	-	(45,149)	118,433	1,225,931
	307,752,697	259,065,119	9,169,078	7,835,782

Receivables and payables from transactions with related parties:

Company	Amounts due from subsidiaries		Amounts due to subsidiaries	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR	EUR	EUR	EUR
ELKOTech Romania SRL**	959,346	2,718,962	19,568	24,112
WESTech Spol s.r.o.	58,478	388,855	120,704	454,542
ELKO Eesti OU	-	-	55,026	47,391
ELKO Lietuva UAB	-	9,279	69,323	64,309
ELKOTEX d.o.o.	458,233	784,953	5,647	17,017
ELKO Mobile Ltd	-	752,735	-	-
ELKO Trading Switzerland AG	10,895,584	548,212	-	315,199
Elko Trading Malta Limited LLC	60,553,788	66,004,358	-	-
Gandalf Distribution AB	2,411,736	1,433,704	53,223	9,615
AST Balts SIA	-	140,376	-	83,799
ELKO Polska Sp.Z.o.o.	-	-	36,868	-
ELKO Ukraine LLC*	8,012,588	140,567	-	-
	83,349,753	72,922,001	360,359	1,015,984

* Including interest payable for current loans: EUR 18,276 in 2019 (2018: EUR 96,343).

** Including interest payable for current loans: EUR 13,780.

Current loans to related companies

	31.12.2019	31.12.2018
	EUR	EUR
ELKOTech Romania SRL*	530,000	-
ELKO Ukraina LLC **	3,560,620	19,598,253
ELKO Mobile Ltd., carrying amount ***	7,624,342	9,830,701
Allowance for the loan to ELKO Mobile Ltd. ****	(7,624,342)	(7,653,826)
	4,090,620	21,775,128

33. Related party disclosures (cont'd)

* 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 2020.

** On 14 November 2018, a loan agreement for USD 30,000,000 was signed. The loan bears interest at 6% and matures on 31 December 2020. As at 31 December 2019, the outstanding loan amount was USD 4,000,000 (EUR 3,560,620).

*** On 19 December 2019, the Company signed an agreement amending the loan agreement with the subsidiary ELKO Mobile Ltd, dated 19 May 2015. According to the amendments, the maturity has been extended up to 31 December 2019 and the maximum loan amount is USD 50,000,000. The loan bears interest at 6.7% per annum (2018: 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 partial repayment of the loan, as at 31 December 2019, the allowance was reduced and totaled EUR 7,624,342.

Current loans received from related parties

	31.12.2019	31.12.2018
	EUR	EUR
Current loan from AST BALTA SIA, current amount *	3,650,000	3,570,000
Current loan from WESTech spol.s.r.o., current amount **	13,000,000	9,500,000
	16,650,000	13,070,000

* 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 matures on 25 November 2020.

** On 20 December 2019, 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 up to 31 March 2020. The maximum loan amount is EUR 7,000,000; the loan bears interest at 3% per annum.

On 20 December 2019, 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 up to 31 March 2020. The maximum loan amount is EUR 2,500,000; the loan bears interest at 3% per annum.

On 20 December 2019, 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 up to 31 March 2020. 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 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

Fair value measurement hierarchy as at 31 December 2018

	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 2018	21,775,128	-	-	21,775,128
Liabilities measured at fair value:					
Loans from credit institutions (Note 25)	31 December 2018	25,091,713	-	25,091,713	-
Loans from related companies (Note 33)	31 December 2018	13,070,000	-	-	13,070,000

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

35. Financial risk management

Geopolitical risk

Significant part of the Company's revenues is generated from sales to Russia and Ukraine (99% of sales to the CIS region are covered by Russian and Ukrainian subsidiaries). Throughout the year the situation on Russian and Ukrainian markets was quite stable, irrespective of the changes in the Ukrainian government and economic sanctions still applied to Russia. Both currencies varied at an acceptable level: RUB/USD rate remained within the range of RUB 62-67 with mean of approx. RUB 68.8, and UAH/USD - within the range of 23 – 28 with mean of UAX 25.9.

As of March 2020 due to oil prices the RUB exchange rate to USD has fallen significantly to RUB 74.

Considering all the above mentioned, the Company has implemented several risk mitigation measures. Thus, to mitigate foreign currency translation risks the Company purchases financial derivatives. The management is carefully monitoring following the 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)
2019		
+10%	(550)	(550)
-10%	550	550
2018		
+10%	(4,190)	(4,190)
-10%	4,190	4, 190

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 2019, 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)
2019		
	+10	+44
	-10	-44
2018		
	+10	+36
	-10	-36

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.

The maximum exposure to credit risk as at 31 December 2019 was EUR 110,469 thousand (31 December 2018: EUR 111,248).

The main customers of the Company are related parties whose mutual transactions comprise 62% (2018: 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 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 92,541,392 as at 31 December 2019.

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

35. Financial risk management (cont'd)

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2018 based on contractual undiscounted payments, EUR'000:

2018	On demand	< 3 months	3 - 12 months	1 – 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Non-current loans	-	-	-	-	-
Bonds	-	-	-	-	-
Current loans	-	9,500	28,662	-	38,162
Trade and other payables	-	59,810	-	-	59,810
Other liabilities	-	342	-	-	342
Derivative financial instruments	-	43	-	-	43
Total	-	69,695	28,662	-	98,357

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.

	31.12.2019	31.12.2018
	EUR '000	EUR '000
Company financials		
Share capital	9,785	9,785
Total equity:	23,992	58,857
Total equity/ Share capital	245	602

36. Events after the end of the reporting period

Financing

Existing financing provided by syndicate of banks matures on 31 July 2020. Negotiations on prolongation of the financing already started and decision for prolongation in the existing limit already received from OP. It is planned to agree on prolongation of existing limits with Luminor and Swedbank by 31 of July.

On 30 January 2020, a credit line agreement between Elko Grupa AS un AS Alfa Bank was signed, which provides that the credit line limit is USD 15 million and the interest rate, set for each tranche individually, is not to exceed 5% per annum. The agreement expires on 1 April 2022.

Market conditions

Starting from late 2019 and up to the report issuing date the world economy is struggling with the consequences of the Covid-19 pandemic.

The pandemic caused many businesses decrease their operations, leading to employees lay off and fall in orders and purchases made.

In the current economic situation the Company has taken several fast actions to mitigate risks:

- to mitigate customer credit risk, the Company has decreased credit limits up to the amount guaranteed by insurance companies. Moreover, more regular and prudent assessment of clients is performed;
- due to the risk of decreased demand, the purchasing process has been reviewed and additional limits on the quantity and type of goods to be purchased are set;
- for better cash management, on 10 March 2020 the Company signed a factoring agreement with Swedbank Līzings SIA with a total limit of EUR 9,919,178.

However, it is impossible to evaluate outcome of the crisis triggered by the pandemic. At present, the Company does not experience any negative impact on its operations. On the contrary, positive sales dynamics is observed based on the data as of the end of the 1st quarter 2020. This is explained by several facts. First, the decreased supply from China lead to an overall supply decrease on the market, leaving a possibility for optimally stocked companies to continue their sales at the usual level. Second, many Companies are getting ready for remote work, therefore, actively buying laptops and similar equipment.

The Company's management believes that the Company will be able to overcome the emergency situation. However, this conjecture 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 2019.

Egons Mednis
Chairman of the Board,
President

Olga Ivanova
Chief Accountant

17 April 2020



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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 51 of the accompanying Annual Report, which comprise the statement of financial position as at 31 December 2019 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 2019 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 with 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. Other information consists of:

- 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,

but 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



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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.

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A handwritten signature in black ink, appearing to read 'Iveta Vimba'.

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153
Riga, 17 April 2020