



ELKO GRUPA AS

Consolidated Annual Report

For the year ended 31 December 2019

Prepared in accordance with International Financial Reporting
Standards as adopted by EU

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General information

| | |
|---|---|
| Group name | ELKO GRUPA AS |
| Legal status of the Group | Joint Stock Company |
| Unified registration number, place and date of registration | 4 000 312 956 Riga, 14 May, 1993 |
| | Re-registration in Commercial register 2 December, 2003 with re-registration number 4 000 312 956 4 |
| Registered office | 4 Toma street Riga LV-1003 Latvia |
| Shareholders | Ashington Business Inc. Limited (1,935,440 A category shares; 415,296 B category shares), United Kingdom Solsbury Inventions Limited (1,928,536 A category shares; 413,815 B category shares), United Kingdom Eurotrail SIA (1,072,608 A category shares; 230,154 B category shares), Latvia Whitebarn SIA (1,072,608 A category shares; 230,154 B category shares), Latvia KRM Serviss SIA (1,049,110 A category shares; 225,113 B category shares), Latvia Solo Investīcijas IT SIA (997,844 A category shares; 214,112 B category shares), Latvia |
| 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 Group individually, President Svens Dinsdorfs – Board Member with powers to represent the Group individually, Chief Executive Officer Mārtiņš Ozoliņš – Board Member with powers to represent the Group individually, Acting Chief Commercial Director Vadims Rabša – Board Member with powers to represent the Group individually, Board Member, Chief Financial Officer |
| Reporting year | 1 January – 31 December, 2019 |

Management report

Business activities

AS ELKO Grupa and its subsidiaries (hereinafter – the Group or ELKO) is one of the largest distributors of IT products in the Central and Eastern Europe. The Group's core business activity is wholesale distribution of IT products such as smartphones and tablets, computer desktop components and peripherals, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO Grupa subsidiaries and cooperation partners. ELKO represents a broad range of vendors from all over the world, including Lenovo, Apple, Intel, Huawei, Seagate, Western Digital, Asus, Acer, Samsung, LG and other global and local vendors.

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

Financial analysis

Despite challenging geopolitical situation in CIS region and increasing competition in all ELKO target markets, the Group in 2019 reached revenue of 1,883 million USD (1,682 million EUR), which was 6,5% increase comparing to 2018. Gross profit for 2019 was 99,7 million USD (89,0 million EUR), which was 21% increase comparing to 2018. The increase in gross profit margin in 2019 as compared to 2018 mainly has been driven by increase in sales in solution segment which brings bigger margins as compared with distribution business.

The net result of the Group for 2019 was 19.7 million USD (17.7 million EUR) comparing to 9.4 million USD (7.9 million EUR) in 2018.

Significant events during reporting period

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.

AS ELKO GRUPA structure

ELKO Grupa AS has shareholdings in the following subsidiaries: ELKO Lietuva UAB, ELKOTEX d.o.o., ELKO Eesti OU, ELKOTech Romania SRL, WESTech spol. s r.o., WESTech CZ s r.o., ELKO Trading Switzerland A.G., ELKO Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine LLC, ELKO Rus LTD, ELCO LLP, AST Balts SIA, Gandalf Distribution AB, ELKO Trading Malta LTD, TD Absolut Llc and Arašid spol. s r.o.

AS ELKO Grupa has majority shareholding in all of the subsidiaries.

Financial risk management

Multi-currency risk

The Group operates internationally and is exposed to foreign exchange risks accordingly, primarily from the US dollar, euro, Russian rouble, Romanian lei, Swedish krona and Ukrainian grivna. Foreign exchange risks arise from future multi-currency transactions and the recognition of assets, liabilities and long-term investments in a variety of currencies.

The purchase of goods is predominantly in US dollars, but sales are conducted in different currencies. In the CIS region, the main currency is US dollar and Russian rouble, but in the Baltics, trade is conducted in euros. CEE countries Slovakia and Slovenia trade in euros, but Romania in its national currency – the Romanian lei. In the Nordic region, most sales are transacted in Swedish krona.

Management report (continued)**Multi-currency risk (continued)**

The Group has shareholdings 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 – the EUR.

Currency risk is actively mitigated by using different bank products. The Group has centrally developed and globally applied currency risk management policies and procedures.

As the Group functional currency is US dollars, for minimizing the currency risk, financing is attracted in US dollars. The Group monitors the open foreign currency positions and if necessary acquires adequate financing instruments to minimize the risk.

Interest rate risk

The Group uses current borrowing rates for financing part of its current assets. All the borrowings are at floating rate that exposes the Group to interest rate risk.

Credit risk

Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO Grupa has implemented procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance and conservative credit monitoring policies. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilization of credit limits is regularly monitored.

Inventories

The Group determines the amount of inventories based on the expected future demand and market situation. Any changes in the demand and/ or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Group makes centralized plans for purchase and sale of the products and the procedures for ordering of the goods help to decrease the inventory days. Weekly inventory analysis decreases the need to establish provisions for obsolete items. The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of decline of the market prices for the goods at the Group's warehouse or that are already ordered.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Group's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

Proposed profit distribution

The Board of the Group suggests to transfer the profit to Retained earnings in order to support future investments and maintain financial stability.

Prospects

The Group's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Group has cooperation partners.

The key factors driving the Group's growth is the increase in demand in the markets where the Group operates as well as the Group's continuous efforts on development of the offered product portfolio and maintenance of efficient and cost effective distribution channels.

The Group continuously improves its cost control and working capital management procedures ensuring higher returns on equity.

The Group believes that the above-mentioned factors will help to sustain continuous growth also in the coming years, ensuring positive results of our operations.

Management report (continued)**Events after the reporting period**

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 Group has taken several fast actions to mitigate risks. For more detailed evaluation of circumstances triggered by pandemic and action taken by the Group please see Note 29 Events after the reporting period in the financial statements.

Egons Mednis
Chairman of the Board,
President
Riga, 17 April, 2020

Statement of Directors' Responsibility

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated financial statements give true and fair view in all material aspects of the financial position of the Group as of December 31, 2019 and of its financial operations for the year ended 31 December, 2019. The consolidated 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 has:

on consistent basis applied appropriate accounting methods;

has provided well-grounded and prudent conclusions and evaluations;

has followed the going concern principle.

The Board of Directors of AS ELKO Grupa is responsible for the maintenance of proper accounting records so that at the appropriate moment the financial records would show the true and fair view of the financial position of the Group and would ensure the possibility for the management to prepare the financial statements accordance with International Financial Reporting Standards as adopted by the European Union.

Egons Mednis
Chairman of the Board,
President
Riga, 17 April, 2020

Consolidated financial statements

Consolidated statements of comprehensive income

| | Note | 2019 USD'000 | 2018 USD'000 | 2019 EUR'000 | 2018 EUR'000 |
|---|------|-----------------|-----------------|-----------------|-----------------|
| Sale of goods and services | 6 | 1,882,817 | 1,768,120 | 1,681,844 | 1,497,101 |
| Cost of sales | 7 | (1,783,148) | (1,685,488) | (1,592,814) | (1,427,135) |
| Gross profit | | 99,669 | 82,632 | 89,030 | 69,966 |
| Other operating income | 8.1 | 12,158 | 8,559 | 10,860 | 7,247 |
| Selling and distribution costs | 7 | (12,438) | (12,870) | (11,110) | (10,897) |
| Administrative expenses | 7 | (50,492) | (41,931) | (45,102) | (35,504) |
| Other operating expenses | 8.2 | (9,669) | (9,156) | (8,637) | (7,752) |
| Operating profit | | 39,228 | 27,234 | 35,041 | 23,060 |
| Finance income | | 656 | 810 | 586 | 685 |
| Finance expenses | | (12,383) | (11,290) | (11,061) | (9,559) |
| Finance income/ (expenses) – net | 9 | (11,727) | (10,480) | (10,475) | (8,874) |
| Profit before tax from continuing operations | | 27,501 | 16,754 | 24,566 | 14,186 |
| Income tax expense | 11 | (7,709) | (7,397) | (6,886) | (6,263) |
| Profit (loss) for the year from continuing operations | | 19,792 | 9,357 | 17,680 | 7,923 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 16,500 | 9,590 | 14,739 | 8,120 |
| Non-controlling interests | | 3,292 | (233) | 2,941 | (197) |
| | | 19,792 | 9,357 | 17,680 | 7,923 |
| Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company | 12 | 1.69 | 0.98 | 1.51 | 0.83 |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods | | | | | |
| Exchange differences on translation of foreign operations | | (4) | (6,683) | 2,055 | (1,667) |
| Total comprehensive incomes for the year | | 19,788 | 2,674 | 19,735 | 6,256 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 16,782 | 3,553 | 16,905 | 6,601 |
| Non-controlling interests | | 3,006 | (879) | 2,830 | (345) |
| | | 19,788 | 2,674 | 19,735 | 6,256 |

The notes on pages 13 to 62 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

17 April 2020

Consolidated statements of financial position

| | Note | 31.12.2019 USD'000 | 31.12.2018 USD'000 | 31.12.2019 EUR'000 | 31.12.2018 EUR'000 |
|--|---------|-----------------------|-----------------------|-----------------------|-----------------------|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Intangible assets | 14 | 1,094 | 968 | 973 | 846 |
| Property, plant and equipment | 15.1 | 5,407 | 4,516 | 4,813 | 3,944 |
| Right-of-use assets | 15.2 | 26,982 | - | 24,019 | - |
| Goodwill | 14&21 | 1,603 | 1,768 | 1,427 | 1,544 |
| Non-current loans | 16 | 138 | 81 | 123 | 70 |
| | | 35,224 | 7,333 | 31,355 | 6,404 |
| Current assets | | | | | |
| Inventories | 17 | 168,896 | 170,512 | 150,343 | 148,919 |
| Current income tax receivable | | 1,152 | 1,806 | 1,026 | 1,577 |
| Trade and other receivables and prepayments | 18 | 268,527 | 244,461 | 239,030 | 213,504 |
| Derivative financial instruments | 25 | - | 605 | - | 528 |
| Cash deposits | 19 | 2,000 | 1,500 | 1,779 | 1,310 |
| Cash and cash equivalents | 19 | 27,328 | 51,107 | 24,328 | 44,635 |
| | | 467,903 | 469,991 | 416,506 | 410,473 |
| Total assets | | 503,127 | 477,324 | 447,861 | 416,877 |
| EQUITY | | | | | |
| Issued capital | 20 | 11,114 | 11,114 | 9,785 | 9,785 |
| Share premium | 20 | 5,996 | 5,996 | 4,974 | 4,974 |
| Translation reserve | 20 | (9,334) | (9,616) | 2,219 | 53 |
| Retained earnings | | 66,904 | 90,955 | 49,498 | 71,169 |
| Equity attributable to equity holders of the Parent Company | | 74,680 | 98,449 | 66,476 | 85,981 |
| Non-controlling interests in equity | | 11,270 | 9,368 | 10,032 | 8,182 |
| Total equity | | 85,950 | 107,817 | 76,508 | 94,163 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Interest-bearing loans and borrowings | 22 | 245 | 602 | 218 | 526 |
| Interest-bearing loans from related parties | 22 | 20,817 | - | 18,531 | - |
| Lease liabilities | 15.2&22 | 21,111 | - | 18,792 | - |
| | | 42,173 | 602 | 37,541 | 526 |
| Current liabilities | | | | | |
| Trade and other payables | 23 | 228,548 | 253,305 | 203,443 | 221,227 |
| Contract liabilities | 23 | 4,196 | 3,985 | 3,735 | 3,481 |
| Interest-bearing loans and borrowings | 22 | 120,106 | 110,026 | 106,913 | 96,093 |
| Interest-bearing loans from related parties | 22 | 12,613 | - | 11,228 | - |
| Lease liabilities | 15.2&22 | 6,388 | - | 5,686 | - |
| Income tax payable | | 2,262 | 591 | 2,014 | 516 |
| Provisions | | 884 | 948 | 787 | 828 |
| Derivative financial instruments | 25 | 7 | 50 | 6 | 43 |
| | | 375,004 | 368,905 | 333,812 | 322,188 |
| Total liabilities | | 417,177 | 369,507 | 371,353 | 322,714 |
| Total equity and liabilities | | 503,127 | 477,324 | 447,861 | 416,877 |

The notes on pages 13 to 62 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

17 April 2020

Consolidated statement of changes in equity

Attributable to equity holders of the Parent Company

| | Issued capital | Share premium | Retained earnings | Translation reserve | Total | Non- controlling interests | Total equity |
|--|-------------------|------------------|----------------------|------------------------|----------------|----------------------------------|-----------------|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Balance at 1 January 2018 | 11,114 | 5,996 | 87,600 | (3,579) | 101,131 | 10,815 | 111,946 |
| Effect of adoption of new accounting standards | - | - | (128) | - | (128) | - | (128) |
| Balance at 1 January 2018 (restated) | 11,114 | 5,996 | 87,472 | (3,579) | 101,003 | 10,815 | 111,818 |
| Other comprehensive income | - | - | - | (6,037) | (6,037) | (646) | (6,683) |
| Profit for the year | - | - | 9,590 | - | 9,590 | (233) | 9,357 |
| Total comprehensive income for 2018 | - | - | 9,590 | (6,037) | 3,553 | (879) | 2,674 |
| Dividend(note 13) | - | - | (6,107) | - | (6,107) | (568) | (6,675) |
| Balance at 31 December 2018 | 11,114 | 5,996 | 90,955 | (9,616) | 98,449 | 9,368 | 107,817 |
| Balance at 1 January 2019 | 11,114 | 5,996 | 90,955 | (9,616) | 98,449 | 9,368 | 107,817 |
| Other comprehensive income | - | - | - | 282 | 282 | (286) | (4) |
| Profit for the year | - | - | 16,500 | - | 16,500 | 3,292 | 19,792 |
| Total comprehensive income for 2019 | - | - | 16,500 | 282 | 16,782 | 3,006 | 19,788 |
| Dividend(note 13) | - | - | (40,551) | - | (40,551) | (1,104) | (41,655) |
| Balance at 31 December 2019 | 11,114 | 5,996 | 66,904 | (9,334) | 74,680 | 11,270 | 85,950 |

| | Issued capital | Share premium | Retained earnings | Translation reserve | Total | Non-controlling interest | Total equity |
|--|----------------|---------------|-------------------|---------------------|---------------|--------------------------|---------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Balance at 1 January 2018 | 9,785 | 4,974 | 68,163 | 1,572 | 84,494 | 9,017 | 93,511 |
| Effect of adoption of new accounting standards | - | - | (114) | - | (114) | - | (114) |
| Balance at 1 January 2018 (restated) | 9,785 | 4,974 | 68,049 | 1,572 | 84,380 | 9,017 | 93,397 |
| Other comprehensive income | - | - | - | (1,519) | (1,519) | (148) | (1,667) |
| Profit for the year | - | - | 8,120 | - | 8,120 | (197) | 7,923 |
| Total comprehensive income for 2018 | - | - | 8,120 | (1,519) | 6,601 | (345) | 6,256 |
| Dividend(note 13) | - | - | (5,000) | - | (5,000) | (490) | (5,490) |
| Balance at 31 December 2018 | 9,785 | 4,974 | 71,169 | 53 | 85,981 | 8,182 | 94,163 |
| Balance at 1 January 2019 | 9,785 | 4,974 | 71,169 | 53 | 85,981 | 8,182 | 94,163 |
| Other comprehensive income | - | - | - | 2,166 | 2,166 | (111) | 2,055 |
| Profit for the year | - | - | 14,739 | - | 14,739 | 2,941 | 17,680 |
| Total comprehensive income for 2019 | - | - | 14,739 | 2,166 | 16,905 | 2,830 | 19,735 |
| Dividend(note 13) | - | - | (36,410) | - | (36,410) | (980) | (37,390) |
| Balance at 31 December 2019 | 9,785 | 4,974 | 49,498 | 2,219 | 66,476 | 10,032 | 76,508 |

Retained earnings are USD 66,904 thousand or EUR 49,498 thousand (2018: USD 90,955 thousand or EUR 71,169 thousand), of which USD 77 thousand or EUR 63 thousand (2018: USD 77 thousand or EUR 63 thousand) are statutory reserves and are not available for dividend distribution.

The notes on pages 13 to 62 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

17 April 2020

Consolidated statement of cash flows

| | Note | 2019 USD'000 | 2018 USD'000 | 2019 EUR'000 | 2018 EUR'000 |
|---|------|-----------------|-----------------|-----------------|-----------------|
| Operating activities | | | | | |
| Profit before tax from continuing operations | | 27,501 | 16,754 | 24,566 | 14,186 |
| Non-cash adjustments to reconcile profit before tax to net cash flows | | | | | |
| Depreciation of property, plant and equipment | 15.1 | 1,640 | 2,242 | 1,460 | 1,899 |
| Amortisation of intangible assets | 14 | 228 | 29 | 203 | 24 |
| Finance income | 9 | (656) | (810) | (586) | (685) |
| Finance costs | 9 | 12,383 | 11,290 | 11,060 | 9,559 |
| Fair value (gain) | | (648) | (994) | (565) | (851) |
| Movements in provisions and allowances | | (64) | 739 | (41) | 654 |
| Gain on disposal of property, plant and equipment | | (92) | (4,345) | (82) | (3,679) |
| Working capital adjustments: | | | | | |
| (Increase) in trade and other receivables | | (23,412) | (19,009) | (24,975) | (25,518) |
| Decrease/(increase) in inventories | | 1,616 | 17,265 | (1,424) | 7,653 |
| (Decrease)/ Increase in trade and other payables | | (21,495) | 42,175 | (13,235) | 48,402 |
| Interest received | | 656 | 810 | 586 | 685 |
| Interest paid | 9 | (12,383) | (11,290) | (11,061) | (9,559) |
| Income tax paid | | (479) | (2,118) | (428) | (1,850) |
| Net cash flows (used in)/ operating activities | | (15,205) | 52,738 | (14,522) | 40,920 |
| Investing activities | | | | | |
| Proceeds from sale of property, plant and equipment | | - | 16,488 | - | 14,500 |
| Purchases of property, plant and equipment | 15.1 | (2,755) | (893) | (2,453) | (780) |
| Purchases of intangible assets | 14 | (357) | (1,170) | (317) | (1,007) |
| Acquisition of a subsidiary | | (641) | (1,961) | (571) | (1,713) |
| Proceeds from cash deposits | | 500 | 400 | 445 | 349 |
| Net cash flows (used in)/from investing activities | | (3,253) | 12,864 | (2,896) | 11,349 |
| Financing activities | | | | | |
| Bonds repaid | | - | (9,265) | - | (8,000) |
| Proceeds from bank overdrafts, net | | 9,780 | (31,884) | 10,565 | (21,935) |
| Payment of principal portion of lease liabilities | 15.2 | (6,997) | - | (6,250) | - |
| Dividends paid to equity holders of the parent | | (7,000) | (6,107) | (6,225) | (5,000) |
| Dividends paid to the Minority shareholders | | (1,104) | (568) | (980) | (490) |
| Net cash flows (used in) / from financing activities | | (5,321) | (47,824) | (2,890) | (35,425) |
| Net decrease in cash and cash equivalents | | (23,779) | 17,778 | (20,307) | 16,845 |
| Cash and cash equivalents at beginning of the year | | 51,107 | 33,329 | 44,635 | 27,790 |
| Cash and cash equivalents at end of the year | | 27,328 | 51,107 | 24,328 | 44,635 |

The notes on pages 13 to 62 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

17 April 2020

Notes to the consolidated financial statements

1 General information

ELKO Grupa AS ("the Parent") and its subsidiaries (together "the Group") principal activity is wholesale distribution of computer desktop components, notebooks, monitors, peripherals, multimedia, consumer and solution products, using the wide network of the Group companies and cooperation partners, representing a broad range of vendors of these products all over the world. The selection includes products from a range of vendors, including Acer, Intel, Western Digital, Seagate, AMD, Hitachi, Sony, Lenovo, Microsoft, Asus, Giga-Byte, Samsung, Toshiba and others.

The Parent Company is a joint stock company incorporated and domiciled in Latvia with company's registered office at Toma str, 4, Riga, LV-1003, Latvia. These consolidated financial statements have been prepared and approved for issue by the Management on 17 April 2020 and signed on its behalf by the Chairman of the Board Egons Mednis.

The financial statements are subject to the approval of the shareholders in general meeting.

The Parent Company has the following participating interests in its subsidiaries:

| Name | Country | Participating interest in share capital of subsidiaries | |
|---------------------------------|----------------|---|------------|
| | | 31.12.2019 | 31.12.2018 |
| | | % | % |
| ALMA LLC.* | Russia | - | 100% |
| ELKO Eesti OU | Estonia | 100% | 100% |
| ELKO Lietuva UAB | Lithuania | 100% | 100% |
| ELKO Marketing Limited | Cyprus | 100% | 100% |
| ELKO Trading Switzerland AG | Switzerland | 100% | 100% |
| ELKOTech Romania SRL | Romania | 100% | 100% |
| Elco LLP** | Kazakhstan | 100% | 100% |
| ELKO Ukraine LLC | Ukraine | 100% | 100% |
| Gandalf Distribution AB*** | Sweden | 100% | 100% |
| AST Balts SIA | Latvia | 100% | 100% |
| ELKO RUS Limited | Russia | 100% | 100% |
| ELKO Polska Sp. z o.o.**** | Poland | 100% | 100% |
| ELKO Trading Malta Limited***** | Malta | 100% | 100% |
| TD Absolut Llc.***** | Russia | 100% | 100% |
| ELKOTEX d.o.o. | Slovenia | 51% | 51% |
| WESTech s.r.o. | Slovakia | 51% | 51% |
| ELKO Mobile Limited | Cyprus | 51% | 51% |
| WESTech CZ s.r.o. | Czech Republic | 51% | 51% |
| ARAŠID spol. s r.o.***** | Slovakia | 51% | 33.5% |
| SWISS SPOL s.r.o.***** | Slovakia | 26% | 26% |

* In January 2019 Elko Marketing Limited sold its investment in ALMA LLC.

** In September 2019 ELKO Kazakhstan LLP changed legal name to Elco LLP.

***In July 2017 ELKO Group AS acquired 85% of shareholding in Gandalf Distribution AB. In accordance with the terms of the purchase agreement, the Company has the call option to purchase 15% of the shares for SEK 6 000 000, which is EUR 609 521 before September 30, 2019. Due to very high probability of acquisition of residual 15%, in consolidation for 2018 Gandalf Distribution AB was considered as 100% owned by ELKO Grupa AS. In August 2019 call option was used and 15% of shares were purchased by ELKO Grupa AS.

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

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

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

***** Parent has control over ARAŠID spol. s r.o. through controlling interest owned by its subsidiary – WESTech s.r.o.***** Parent has control over SWISS SPOL. s r.o. through controlling interest owned by its subsidiary – WESTech s.r.o.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in EUR and USD and all values are rounded to the nearest thousand (€/USD'000), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2.1 Basis of preparation (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the Group recognizes bargaining purchase amount in profit and loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Consideration transferred, then the gain is recognised in profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.2 Foreign currency translation

The Group's functional currency is U.S. dollars. The company has decided, in addition to functional currency, also to present the financial statements in presentation currency euro (EUR) as required for filing purposes according to Latvian legislation.

In determination of functional currency Group 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 labour, 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 (ie 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 Parent:

- (a) whether the activities of the foreign operation are carried out as an extension of the Parent, rather than being carried out with a significant degree of autonomy.
- (b) whether transactions with the Parent are a high or a 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 Parent and are readily available for remittance to it.
- (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the Parent.

2.2 Foreign currency translation (continued)

Transactions and balances

As the presentation currency differs from the Group'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 (ie 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 (ie 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.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Group's functional currency U.S. dollars at the European Central Bank rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised as gain or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group 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 recognised:

Revenue from contracts with customers

The Group is in the business of providing IT products and solutions. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group 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 3. Revenues from contracts with customers are disclosed in Note 6.

Sale of goods

Revenue from the sale of goods is recognised when the control of the goods have 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 recognised 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 Group 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 Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

2.3. Revenue recognition (continued)

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group 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 recognised 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 Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group 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 Group 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 Group'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 accounting policies of financial assets in Note 2.5. Trade receivables consist of trade receivables, accrued income, and debt on factoring as disclosed in Note 18.

The Group splits trade receivable balances in two portfolios based on a business model.

- Trade receivables from contracts with customers within a business model with the objective to hold financial assets in order to collect contractual cash flows are accounted at amortized cost and reviewed for impairment as disclosed in Note 2.5.

- Trade receivables from contracts with customers held with the only objective of selling the financial assets are accounted for at FVTPL (factoring with non-recourse).

Proceeds received in accordance with factoring agreements are recognized as prepayments from customers when the Group remain exposed to credit risk associated with the respective debtor. When credit risk remains with the contracting party or the factor, the proceeds are netted against the respective debtor balance in full.

Contract liabilities

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

Rendering of services

The Group generates income from providing marketing and transport agency services that are sold separately from IT products. These services can also be obtained from other providers and do not significantly customise or modify IT products. These services are provided based on agreed time and material costs incurred or as a fixed-price contract. Revenue from fixed-price contracts for delivering transportation services is recognised over time using input method to measure the progress towards complete satisfaction of the service.

2.3. Revenue recognition (continued)

Interest income

For all financial instruments measured at amortised 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 finance income in the statement of comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividends.

Other income

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

2.4 Taxes

Income taxes

Based on Corporate Income Tax Law of the Republic of Latvia legal entities are not required to pay income tax on earned profits.. Corporate income tax is paid on distributed profits and deemed profit distributions at 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.

For other companies within the Group current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

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.

Deferred tax assets and liabilities

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Corporate income tax on profits and deferred income tax expense or benefit of subsidiaries located in countries mentioned below, as well as corporate income tax on dividends and deferred income tax expense on dividends of Latvian entities are reported in the consolidated statement of profit or loss.

2.4 Taxes (continued)

Deferred tax assets and liabilities (continued)

The corporate income tax rates in the major jurisdictions where the Group Companies are operating are:

Latvia – 25%
 Russia – 20%
 Ukraine – 18%
 Slovakia – 21%Romania – 16%
 Cyprus – 12.5%
 Switzerland – 8.5%
 Kazakhstan – 20%
 Slovenia – 19%
 Sweden – 21.4%
 Czech Republic – 19%
 Malta – 35%

The consolidated financial statements include the current and deferred income tax of Russia, Slovenia, Slovakia, Czech Republic subsidiaries. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

Tax loss carry forward periods

Latvia – 5 years
 Russia – unlimited period, but cannot exceed a cap (50% of the tax base of the current period)
 Ukraine – indefinite
 Slovakia – 4 years
 Romania – 7 years
 Cyprus – 5 years
 Switzerland – 7 years
 Kazakhstan – 10 years
 Malta – indefinite
 Sweden - indefinite

Poland – 5 years, but the deduction is restricted to 50% of the loss incurred.

Accumulated tax loss as at 31.12.2019 in Romania 587 thousand USD (523 thousand EUR); Switzerland – 900 thousand USD (786 thousand EUR).

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised 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 sales tax included.

The net amount of sales 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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised 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 Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group 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 Group 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 amortised 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 Group'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 recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

- Financial assets at amortised 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

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

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised 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 amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

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 amortised 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 recognised 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 derecognised when:

- The rights to receive cash flows from the asset have expired
- Or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group 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 Group could be required to repay.

Impairment of financial assets

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

- Disclosures for significant assumptions Note 3
- Trade receivables, including contract assets Note 18

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group 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 Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

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 recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group'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 Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised 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 Group has not 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 Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised 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 amortisation 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 22.

Factoring

A factoring transaction is a funding transaction where the Group transfers to the factor claim rights from a debtor for a determined reward. The Group alienates the rights to receivables due at a future date according to invoices. The Group's factoring transactions comprise factoring transactions with recourse (the factor is entitled to selling the overdue claim back to the Group). The factoring expenses comprise the lump-sum contract fee charged on the conclusion of the contract, commission fees charged for processing the invoices, and interest expenses depending on the duration of the payment term set by the debtor. Factored accounts receivable with recourse are recorded under current borrowings and trade receivables captions in the financial statements. The Group derecognises the borrowings and the trade receivables at the moment when the debtor settles the liability with the factor. The factoring transactions with non-recourse are derecognized in the moment of trade receivables' sale to the factor.

Derecognition

A financial liability is derecognised 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate and currency swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Fair value of financial instruments

The Group measures financial instruments such as derivatives at fair value at each balance sheet date. Fair-value related disclosures for financial instruments are summarised in the note 26.

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 Group.

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 economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising 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.

2.6 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in the statement of profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|--|-----------|
| Property | 20 years |
| Communication and computer engineering | 2 years |
| Other | 4-5 years |
| Leasehold improvements | 3-5 years |

2.6. Property, plant and equipment (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

2.7 Leases

Policy applicable before 1 January 2019

In the comparative period, the Group 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 Group'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.

Group as a lessor

As a lessor, the Group determines at lease inception whether the lease is a finance lease or an operating lease. If the Group 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 Group 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 Group as a lessor in the comparative period were not different from IFRS 16.

Policy applicable after 1 January 2019

The Group 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.

Group as a lessee

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

Right-of-use assets

The Group has applied modified retrospective approach and recognised 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 recognised, 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:

- Buildings 2 to 15 years

If ownership of the leased asset transfers to the Group 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.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.11(s) Impairment of non-financial assets.

2.7 Leases (continued)

Lease liabilities (continued)

As at 1 January 2019, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance 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 Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group 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 Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 22).

Short-term leases and leases of low-value assets

The Group 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 recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group 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 recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.8 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 capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In 2018 and 2019 the Group had no acquisition, construction or production of assets qualifying for capitalization of borrowing costs attributed.

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed at 5 years.

2.9 Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is 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 accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the the statement of profit or loss when the asset is derecognised.

2.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of goods comprises acquisition costs, additional expenses related to transportation, import duties, duties for environmental protection and insurance as well as any discounts and allowances granted by vendors. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Estimated selling price is based upon an aging analysis of the inventory on hand, technological obsolescence, the nature of vendor relations and assumptions about future demand. The inventories are recognized at the moment when the invoice by the vendor is issued and the liability to the vendor is recognized.

2.11 Impairment of non-financial assets

The Group 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 Group 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 or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in statement of profit or loss.

Goodwill is tested for impairment annually as at 31 December or when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.12 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

2.13 Share capital and dividend distribution

Ordinary shares are classified as equity. The Parent Company has issued only ordinary shares.

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Group's financial statements in the period, in which the dividends are approved by the Parent's shareholders.

2.14 Provisions

Provisions are recognised when the Group 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 Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss 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 recognised as a finance cost.

2.15 Warranties

The Group's vendors generally warrant the products distributed by the Group and allow returning defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain.

2.16 Vendor programs

The Group receives funds from vendors in a form of credit notes for price protection, product rebates, marketing and other product promotions. The credit notes for price protection are booked as decrease of the cost value of the inventory. The credit notes for rebates are recognized directly in the statement of comprehensive income as decrease of cost of sales. The credit notes for marketing and other product promotion are 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.

2.17 Going concern

The year 2019 showed a stable revenue growth of 28% in the subsidiaries operating in the CIS region. However, after the reporting period several factors have created turbulence in the world economy, the CIS region including. The main factor currently affecting economy is the Covid-19 pandemic, which has shaken businesses and citizens' wealth, thus their purchasing power as well.

Moreover, due to the fact, that Russia and the Organization of the Petroleum Exporting Countries could not reach an agreement regarding decrease in the volumes of oil extraction, the oil prices fell, which triggered a drop in the value of the Russian ruble. For more details on the events after the reporting period, see Note 29 below.

As of April 2020, the crisis described above had no significant impact on the Group's performance. Demand for IT goods is still high, as in the pandemic conditions, many large companies, as well as households are preparing to work remotely.

Moreover, the decline in the value of the ruble, made Russian citizens afraid of further decrease of its value, increase purchases of more expensive goods so as to invest money.

2.1 Going concern (continued)

To ensure the ability to operate on going concern basis, the Group's management has identified the following main areas to be monitored – market risk in relation to Covid-19, FX risk and maintenance of financing facilities. Since the Group currently is already hedging its position and the costs of hedge are passed to customers the Group does not expect to have any significant impact on its operation and net results due to sudden changes in the RUB and UAH currency rates.

These consolidated financial statements for the year ended 31 December 2019 are prepared on going concern basis, consistently applying International Financial Reporting Standards as adopted by the European Union.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated 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 Group's accounting policies, management has made the following judgments and estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

3.1 Currency

The Management have evaluated that The Group's functional currency is U.S. dollars as financing activities and the purchase of goods from vendors is by the Parent Company in U.S. dollars, the sales from the Parent Company to its subsidiaries are done in U.S. dollars. The sales to customers are carried out by the subsidiaries in the respective local currencies, except for Elko Trading Switzerland AG and Elko Trading Malta, whose sales are done in U.S. dollars.

3.2 Control of subsidiaries

Group consolidate all entities, over which it has a control. Group has a control, when:

- it has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- has an exposure, or rights, to variable returns from its involvement with the investee;
- has an ability to use its power over the investee to affect the amount of returns.

Based on criteria above the Group have assessed that the group have 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.o.

For the list of entities included into the consolidated Group see Note 1.

3.3 Vendor programs

The Group 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 of 31 December 2019 amounted to USD 9,802 thousand or EUR 8,725 thousand (2018: USD 8,897 thousand or EUR 7,770 thousand) based on the individual vendor agreements. Vendor programs are recognized as decrease in trade payables (Note 23).

3.4 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 11).

3.5 Impairment of inventories

The Group 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 Group's vendors to protect distributors from the loss in value of inventory due to technological change or the vendors' price reductions. In 2019 impairment on inventory in amount of USD 11,077 or EUR 9,860 was recognized (see Note 17).

3.6 Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group 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 Group has several lease contracts that include extension and termination options. The Group 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 Group 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 customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of premises with shorter non-cancellable period. The Group typically exercises its option to renew for office and warehouse premises. However, for stores this option is not always executed, as it depends on store profitability and possibility to change for better location. Each rent agreement has been evaluated individually by the Group in this regard.

3.7 Sub-lease classification

The Group has concluded several sub-lease agreements of its premises. The Group 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.

3.8 Leases - Estimating the incremental borrowing rate

The Group 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 Group 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 Group '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 Group 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).

3.9 Warranty provisions

The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs are incurred along the process of handling the returned goods. A provision for these assurance-type warranties estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience.

3.10 Revenue from contracts with customers

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

The Group determined that the input method is the best method in measuring progress of the transportation and marketing services because there is a direct relationship between the Group's effort (i.e., labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the labour hours and 3rd party expense expended relative to the total expected labour hours and 3rd party expense to complete the service.

Principal versus agent considerations

Based on the existence of credit risk and the nature of the consideration in the contract, Group has an exposure to the significant risks and rewards associated with the sale of IT products to its customers and accounts for the contracts as if it is a principal.

The Group's sales to CIS and other countries are performed to the end customers using a number of intermediaries. The customers perceive the Group as a seller of the goods, the intermediaries in substance do not assume general inventory risk and usually the payments are made by the intermediaries to the Group after the intermediaries have received cash from the customers. Based on the above the management has concluded that the intermediaries act as agents and the Group recognizes revenue after the intermediaries have sold goods to the customers. The goods that have been legally sold but for which no revenue is yet recognized are included in Inventories as consignment inventories (Note 17).

3.11 Allowance for expected credit losses of trade receivables and contract assets

The Group 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 Group's historical observed default rates. The Group 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 analysed.

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 Group'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. Default rates for Companies with debtor insurance policy is calculated taking into consideration insurance limits and own risk. For Companies with no debtor insurance policy default rate is 100%.

3.12 Related party transaction compliance

The Group has a significant number of intra-group transactions. Group's entities are operating in the IT distribution/wholesale industry and operate as distributors, wholesalers and limited risk wholesalers. Being present in various jurisdictions, Group's entities must comply with respective country's tax legislation and rulings. In order to meet the requirements of different jurisdictions, pricing models are evaluated on a regular basis for compliance.

3.13 Goodwill impairment

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 14 and note 22 for the newly acquired Companies.

4 Changes in accounting standards

4.1 Changes in accounting policies 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 by the AS ELKO GRUPA 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. Management applying modified retrospective approach and recognized USD 31 million of both Right-of-use assets and Rent liabilities on balance sheet 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. Management has assessed the amendment and concluded, that it does not have any impact on consolidated annual report of the Group, as there are no such contracts within the Group.
- **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. Management has assessed interpretation and concluded that it does not have impact on Group's consolidated financial statement.
- **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. Management has assessed the amendment and concluded, that it does not have any impact on consolidated annual report of the Group, as there are no such contracts within the Group.
- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. Management has assessed improvements and concluded that they does not have any impact on Group's consolidated financial statement.
 - **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.

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

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has not assessed any impact 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. Management has assessed the amendmend and concluded, that there will be no impact on Group's consolidated financial statement.

- **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. Management has assessed the amendmend and concluded, that there will be no impact on Group's consolidated 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. Management has not assessed the amendment yet.

5 Financial risk management objectives and policies

5.1 Financial risk factors

The Group's activities provide exposure to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance management of the Group both under policies approved and separate decisions made by the Board of Directors. It identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

5.1.1 Market risk

Geopolitical risk

Significant part of the Group revenues are generated from sales to Russia and Ukraine (99% of Sales to CIS region are covered by Russian and Ukrainian subsidiaries). Throughout the year the situation on Russian and Ukrainian markets was quite stable, despite changes in government in Ukraine and economic sanction still applied to Russia. Both currencies varied at acceptable level: RUB/USD rate stayed in the range of 62-67 with mean of aprx. 68.8 and UAH/USD - in the range of 23 – 28 with mean of 25.9.

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

Considering all above mentioned, Group has implemented risk mitigation actions. To mitigate foreign currency translation risks the Group is purchasing the financial derivatives. Management is closely monitoring economic situation and developments in East European region.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the Russian rouble, Ukrainian hryvna and Euro currencies changes towards the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The purchase of goods from vendors is predominantly done in US dollars. The sales from the Parent Company to subsidiaries are done in US dollars. The sales to customers are carried out by the subsidiaries in the respective local currencies, except for ELKO Trading Switzerland AG and Elko Trading Malta Limited, whose sales are done mostly in US dollars. Although the subsidiaries carry out the sales in the local currencies, the prices in the market tend to follow the purchasing currency i.e. US dollars, ELKO Trading Switzerland and Elko Trading Malta Limited sales in US dollars and its significant weight in the Group's sales result in the fact, that trade payables and receivables have very similar structure in terms of currency composition (Notes 18 and 23).

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk in the amount of USD 64,997 thousand or EUR 57,858 thousand (2018: USD 63,103 thousand or EUR 55,112 thousand).

To mitigate foreign currency translation risks the Group is purchasing financial derivatives. The financial derivatives are mainly bought to mitigate risks from USD/RUB, USD/EUR and USD/UAH currency pair fluctuations.

The following table demonstrates the sensitivity to a reasonably possible change of the US dollar exchange rate to other currencies used by the Group, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of monetary assets, liabilities and translation of equities in subsidiaries). Considering that Group has hedged its foreign currency exchange risks, actual forecasted risk exposure is close to 0.

5.1.1 Market risk (continued)

| Increase / decrease in US dollar rate to EUR | Effect on profit USD ('000) | Effect on equity USD ('000) |
|---|--|--|
| 2019 | | |
| +10% | (2,150) | 385 |
| -10% | 2,150 | (385) |
| 2018 | | |
| +10% | (2,150) | 6,739 |
| -10% | 2,150 | (6,739) |
| Increase / decrease in US dollar rate to EUR | Effect on profit EUR ('000) | Effect on equity EUR ('000) |
| 2019 | | |
| +10% | (1,920) | 343 |
| -10% | 1,920 | (343) |
| 2018 | | |
| +10% | (1,878) | 5,886 |
| -10% | 1,878 | (5,886) |
| Increase / decrease in US dollar rate to UAH | Effect on profit USD ('000) | Effect on equity USD ('000) |
| 2019 | | |
| +10% | (2,532) | (2,532) |
| -10% | 2,532 | 2,532 |
| 2018 | | |
| +10% | (3,810) | (3,810) |
| -10% | 3,810 | 3,810 |
| Increase / decrease in US dollar rate to UAH | Effect on profit EUR ('000) | Effect on equity EUR ('000) |
| 2019 | | |
| +10% | (2,262) | (2,262) |
| -10% | 2,262 | 2,262 |
| 2018 | | |
| +10% | (3,328) | (3,328) |
| -10% | 3,328 | 3,328 |
| Increase / decrease in US dollar rate to RUB | Effect on profit USD ('000) | Effect on equity USD ('000) |
| 2019 | | |
| +15% | (11,199) | (11,199) |
| -15% | 11,199 | 11,199 |
| 2018 | | |
| +15% | 8,342 | 8,342 |
| -15% | (8,342) | (8,342) |

5.1.1 Market risk (continued)

| Increase / decrease in US dollar rate to RUB | Effect on profit EUR ('000) | Effect on equity EUR ('000) |
|---|--------------------------------|--------------------------------|
| 2019 | | |
| +15% | (10,004) | (10,004) |
| -15% | 10,004 | 10,004 |
| 2018 | | |
| +15% | 7,286 | 7,286 |
| -15% | (7,286) | (7,286) |

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's current borrowings to finance a part of its working capital needs, which exposes the Group's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. During 2019, the Group's borrowings at variable rates were predominantly denominated in US dollars, Russian roubles and Euro (Note 22).

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

| | Increase / decrease in basis points | Effect on profit before tax (USD'000) |
|-------------|--|---|
| 2019 | +10 | (115) |
| | -10 | 115 |
| 2018 | +10 | (123) |
| | -10 | 123 |

| | Increase / decrease in basis points | Effect on profit before tax (EUR'000) |
|-------------|--|---|
| 2019 | +10 | (102) |
| | -10 | 102 |
| 2018 | +10 | (104) |
| | -10 | 104 |

5.1.2 Credit risk

Credit risk is managed on a Group basis by implementing centralised procedures and control. Credit risk arises from the credit exposure to outstanding trade receivables and other receivables (Note 18). The Group minimizes these risks through credit risk insurance and conservative credit policy. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilisation of credit limits is regularly monitored.

The maximum exposure as at 31 December 2019 is USD 269,679 thousand or EUR 240,056 thousand (2018: USD 246,267 or EUR 215,081 thousand).

There is no single end-customer or group of end-customers that exceed 10% of total Group sales.

As at 31 December, 2019 the Group's credit risk exposure to its cooperation partners in CIS region was 22 % of total trade receivables (2018: 26%).

Top 10 end-customers constitute approximately 23% of total sales (2018: 30%).

5.1.2 Credit risk (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than 180 days and are not subject to enforcement activity. The Group does not hold collateral as security. The credit insurance is considered integral part of trade receivables and considered in the calculation of impairment.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix:

| 31 December 2019 | | | | | | | | | |
|--|----------------|--------------------|----------------------|-------------------|-------|---------------------|---------------------|--------------------------|---------------------|
| Contract assets | Current | <30 days | Days past due | | | 91- 120 days | 121-150 days | Trade receivables | |
| | | | 30–60 days | 61–90 days | | | | 151-180 days | >181 days |
| USD000 | | | | | | | | | |
| Expected credit loss rate | 0.1% | 0.3% | 2.2% | 13.3% | 14.6% | 1.6% | 19.5% | 17.5% | 0.7% |
| Estimated total gross carrying amount at default | 166,549 | 53,574 | 2,025 | 893 | 1,561 | 1,939 | 412 | 4,280 | 231,233 |
| Expected credit loss | 185 | 164 | 45 | 119 | 228 | 32 | 80 | 747 | 1,600* |
| 31 December 2019 | | | | | | | | | |
| Contract assets | Current | <30 days | Days past due | | | 91- 120 days | 121-150 days | Trade receivables | |
| | | | 30–60 days | 61–90 days | | | | 151-180 days | >181 days |
| EUR000 | | | | | | | | | |
| Expected credit loss rate | 0.1% | 0.3% | 2.2% | 13.3% | 14.6% | 1.6% | 19.5% | 17.5% | 0.7% |
| Estimated total gross carrying amount at default | 148,255 | 47,689 | 1,802 | 795 | 1,389 | 1,726 | 367 | 3,810 | 205,833 |
| Expected credit loss | 164 | 146 | 40 | 106 | 203 | 28 | 72 | 665 | 1,424 |

*In addition individual provision for debtor with residual balance of USD 321 thousand (EUR 286 thousand) was made for the whole residual debt amount. Respectively, total provisions as of 31.12.2019 are amounted to USD 1,921 million (EUR 1,710 million).

5.1.2 Credit risk (continued)

31 December 2018

| Contract assets USD'000 | Current | <30 days | Days past due | | | Trade receivables | | | Total |
|--|---------|----------|---------------|------------|-------------|-------------------|--------------|-----------|----------|
| | | | 30–60 days | 61–90 days | 91–120 days | 121–150 days | 151–180 days | >181 days | |
| Expected credit loss rate | 0.1% | 0.2% | 0.1% | 0.5% | 0.2% | 33.9% | 17.3% | 22.7% | 0.6% |
| Estimated total gross carrying amount at default | 149,966 | 27,786 | 14,701 | 11,696 | 9,503 | 41 | 100 | 4,528 | 218,322* |
| Expected credit loss | 141 | 42 | 21 | 56 | 18 | 14 | 17 | 1,026 | 1,335* |

31 December 2018

| Contract assets EUR'000 | Current | <30 days | Days past due | | | Trade receivables | | | Total |
|--|---------|----------|---------------|------------|-------------|-------------------|--------------|-----------|---------|
| | | | 30–60 days | 61–90 days | 91–120 days | 121–150 days | 151–180 days | >181 days | |
| Expected credit loss rate | 0.1% | 0.2% | 0.1% | 0.5% | 0.2% | 33.9% | 17.3% | 22.7% | 0.6% |
| Estimated total gross carrying amount at default | 130,975 | 24,267 | 12,839 | 10,215 | 8,300 | 36 | 87 | 3,954 | 190,674 |
| Expected credit loss | 123 | 37 | 18 | 49 | 16 | 12 | 15 | 896 | 1,166 |

*In addition individual provision for debtor with residual balance of USD 2.486 million (EUR 2.171 million) was made for the whole residual debt amount. Respectively, total provisions as of 31.12.2018 are amounted to USD 3.821 million (EUR 3.337 million).

5.1.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted payments in USD'000:

| Year ended 31/12/2019 | On demand USD'000 | < 3 months USD'000 | 3 to 12 months USD'000 | 1 to 15 years USD'000 | Total USD'000 |
|------------------------------------|----------------------|-----------------------|---------------------------|--------------------------|------------------|
| Non-current borrowings | - | - | - | 42,173 | 42,173 |
| Current borrowings | - | - | 139,107 | - | 139,107 |
| Trade and other payables | - | 232,744 | - | - | 232,744 |
| Derivative financial instruments | - | 7 | - | - | 7 |
| Total financial liabilities | - | 232,751 | 139,107 | 42,173 | 414,031 |

5.1.3. Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments in USD'000:

| Year ended | On demand | < 3 months | 3 to 12 months | 1 to 15 years | Total |
|------------------------------------|-----------|----------------|----------------|---------------|----------------|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| 31/12/2018 | | | | | |
| Non-current borrowings | - | - | - | 602 | 602 |
| Current borrowings | - | 400 | 109,626 | - | 110,026 |
| Trade and other payables | - | 257,290 | - | - | 257,290 |
| Derivative financial instruments | - | 50 | - | - | 50 |
| Total financial liabilities | - | 257,740 | 109,626 | 602 | 367,968 |

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted payments in EUR'000:

| Year ended 31/12/2019 | On demand | < 3 months | 3 to 12 months | 1 to 15 years | Total |
|------------------------------------|-----------|----------------|----------------|---------------|----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Non-current borrowings | - | - | - | 37,541 | 37,541 |
| Bonds | - | - | - | - | - |
| Current borrowings | - | - | 123,827 | - | 123,827 |
| Trade and other payables | - | 207,178 | - | - | 207,178 |
| Derivative financial instruments | - | 6 | - | - | 6 |
| Total financial liabilities | - | 207,184 | 123,827 | 37,541 | 368,552 |

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments in EUR'000:

| Year ended 31/12/2018 | On demand | < 3 months | 3 to 12 months | 1 to 15 years | Total |
|------------------------------------|-----------|----------------|----------------|---------------|----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Non-current borrowings | - | - | - | 526 | 526 |
| Current borrowings | - | 349 | 95,744 | - | 96,093 |
| Trade and other payables | - | 224,708 | - | - | 224,708 |
| Derivative financial instruments | - | 43 | - | - | 43 |
| Total financial liabilities | - | 225,100 | 95,744 | 526 | 321,370 |

5.1.4 Legislative risk

The Group has used, and continues to use, a variety of third-party entities in which it does not hold any direct or indirect equity interest to facilitate the import of products into Russia and Ukraine. In the Eastern European countries the tax legislation and rulings are still subject to frequent change, and consequently are not as stable as the tax practices in most of the Western world countries. In the event that Russian and/or Ukrainian tax authorities choose to take a more aggressive position in their interpretation and enforcement of tax legislation, the Group might be held liable in case of a failure of a third party to comply with the interpretations of the authorities in Russia and/or Ukraine. Any estimate of a likelihood of any liability arising as a result of the Russian or Ukrainian tax enforcement, its effect on the financial position of the Group or the maximum amount cannot be reasonably assessed. Historically no such claims have arisen.

5.2. Capital management

The primary objective of the Group'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 shareholders value.

The Group 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 share capital.

| | 31.12.2019. | 31.12.2018. | 31.12.2019. | 31.12.2018. |
|------------------------------------|-------------|-------------|-------------|-------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Parent company financials | | | | |
| Share capital | 11,114 | 11,114 | 9,785 | 9,785 |
| Total equity | 26,872 | 67,511 | 23,920 | 58,961 |
| Total equity/ Share capital | 242% | 607% | 244% | 603% |

According to loan agreements Group is in compliance with all covenants.

The Group monitors capital using the following ratio:

| | 31.12.2019. | 31.12.2018. | 31.12.2019. | 31.12.2018. |
|--------------------------------|-------------|-------------|-------------|-------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Consolidated financials | | | | |
| Net Debt* | 151,952 | 58,021 | 135,261 | 50,674 |
| Total equity | 85,950 | 110,303 | 76,508 | 96,334 |
| Net Liabilities/ Equity | 1.77 | 0.96 | 1.77 | 0.53 |

* Net debt is equal to all borrowings less cash and deposits.

6 Sale of goods and services

| | 2019 | 2018 | 2019 | 2018 |
|--|------------------|------------------|------------------|------------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Components (DNS) | 486,631 | 467,560 | 434,688 | 395,892 |
| Personal Computing (M_M) | 290,927 | 244,922 | 259,873 | 207,380 |
| Mobile Communications (MCO) | 533,137 | 619,776 | 476,230 | 524,776 |
| Home & Office Electronics, Peripherals (PMC) | 152,655 | 119,391 | 136,360 | 101,091 |
| Software (S_W) | 50,586 | 44,029 | 45,186 | 37,280 |
| Solutions & Value Added Services (VAD) | 101,625 | 68,849 | 90,777 | 58,296 |
| TV Sets (TVS) | 126,870 | 100,248 | 113,328 | 84,882 |
| Small Domestic Appliances & Other (SDA) | 13,713 | 1,818 | 12,250 | 1,539 |
| Built-In Appliances (BIA) | 126,673 | 101,526 | 113,152 | 85,965 |
| | 1,882,817 | 1,768,120 | 1,681,844 | 1,497,101 |

As at 31.12.2019 there are no remaining performance obligations in existing contracts.

7 Cost of sales, Selling and distribution costs and Administrative expenses

| | 2019 | 2018 | 2019 | 2018 |
|--|------------------|------------------|------------------|------------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Trade inventory sold | 1,783,148 | 1,685,488 | 1,592,814 | 1,427,135 |
| Employee benefit expense (Note 10) | 26,011 | 23,313 | 23,234 | 19,739 |
| Rent and office maintenance expenses (Note 15.2) | 2,553 | 5,163 | 2,281 | 4,372 |
| Warehousing expenses | 4,440 | 5,497 | 3,965 | 4,655 |
| Transportation expenses | 5,605 | 5,030 | 5,007 | 4,259 |
| Advertising costs | 1,120 | 1,305 | 1,000 | 1,105 |
| Professional fees* | 3,112 | 2,777 | 2,780 | 2,351 |
| Depreciation and amortisation charges (Notes 14, 15.1) | 7,942 | 2,272 | 7,095 | 1,923 |
| Other expenses | 12,147 | 9,444 | 10,850 | 7,997 |
| | 1,846,078 | 1,740,289 | 1,649,026 | 1,473,536 |

8 Other income/expenses

8.1 Other operating income

| | 2019 | 2018 | 2019 | 2018 |
|--|-----------------|-----------------|-----------------|-----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Income from services provided* | 8,774 | 300 | 7,837 | 254 |
| Net gain on financial instruments** | - | 3,914 | - | 3,314 |
| Gain from sale of property, plant and equipment*** | 92 | 4,345 | 82 | 3,679 |
| Net gain from foreign exchange fluctuations | 3,259 | - | 2,912 | - |
| Other income | 33 | - | 29 | - |
| | 12,158 | 8,559 | 10,860 | 7,247 |

* In 2019 Group has written off liabilities to bankrupt creditor in amount of USD 6,933 thousand (EUR 6,193 thousand). In addition to that, Group has concluded sub-lease agreement for its premises and included income USD 352 thousand (EUR 315 thousand) to Income from service provided above. For more details of sub-lease see Note 15.2.

**In 2018 both results from foreign exchange and derivative instruments were netted out in position Net gain from foreign exchange fluctuations.

***In 2018 AST Balt sold its Real Estate.

8.2 Other operating expenses

| | 2019 | 2018 | 2019 | 2018 |
|---|-----------------|-----------------|-----------------|-----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Allowance for ECL (Note 18) | 2,193 | (2,932) | 1,959 | (2,483) |
| Provisions for old stock (Note 17) | (11,077) | - | (9,895) | - |
| Net loss from foreign exchange fluctuations | - | (829) | - | (702) |
| Goodwill impairment* | - | (4,888) | - | (4,138) |
| Net Loss on financial instruments** | (679) | - | (607) | - |
| Other expenses | (106) | (507) | (94) | (429) |
| | (9,669) | (9,156) | (8,637) | (7,752) |

*AST Balt SIA 3.969m USD (3.361m EUR) and Arašid spol.s.r.o 918 thousand USD (777 thousand EUR). See note 21.

**In 2019 both results from foreign exchange and derivative instruments were netted out in position Net loss from foreign exchange fluctuations.

9 Finance income and costs

| | 2019 | 2018 | 2019 | 2018 |
|---|-----------------|-----------------|-----------------|-----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Interest expense: | | | | |
| – Bank and bond borrowings | (12,211) | (11,125) | (10,907) | (9,420) |
| – Other interests | (172) | (165) | (154) | (140) |
| Finance costs | (12,383) | (11,290) | (11,061) | (9,560) |
| Finance income: | | | | |
| – Interest income on short-term bank deposits | 140 | 205 | 125 | 173 |
| – Penalties and other interest income | 517 | 605 | 462 | 513 |
| Finance income | 657 | 810 | 587 | 686 |
| Net finance costs | (11,727) | (10,480) | (10,475) | (8,874) |

10 Employee benefit expense

| | 2019 | 2018 | 2019 | 2018 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Wages and salaries | 19,168 | 17,555 | 17,121 | 14,864 |
| Social security costs | 5,399 | 4,854 | 4,823 | 4,110 |
| Other employment benefits | 1444 | 903.11 | 1290 | 765 |
| | 26,011 | 23,312 | 23,234 | 19,739 |

Employees involved in the sales functions are subject to a partial variable remuneration based on the sales performance.

All personnel expenses have been charged in statement of comprehensive income and are shown in administrative expenses.

11 Income tax

Current corporate income tax

| | Latvia | Lithuania/ Poland | Estonia/Russia/Kazakhstan | Ukraine | Slovakia | Slovenia/Czech Republic | Cyprus | Sweden | Romania | Switzerland | Malta |
|--|---------|-------------------|---------------------------|---------|----------|-------------------------|---------|---------|---------|-------------|---------|
| 2019 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Profit/ (loss) before income tax | 1,613 | 54 | 9,266 | 3,940 | 7,916 | 937 | 9,699 | 1,126 | (231) | 1,453 | 1,869 |
| Income tax rate | 25% | 15% | 20% | 18% | 21% | 19.00% | 13% | 21% | 16% | 14% | 35% |
| Tax calculated at domestic tax rates applicable to profits in respective countries | 357 | 8 | 1,911 | 709 | 1,733 | 178 | 1,212 | 241 | - | 203 | 654 |
| Income tax effect from profit taxable with 0% rate | (357) | - | (5) | - | - | - | - | - | - | - | - |
| Utilization of previously unrecognized tax loss | - | (6) | (2) | (937) | - | - | - | - | - | (129) | - |
| Permanent differences: | - | - | - | - | - | - | - | - | - | - | - |
| Non-operating expense | 18 | 3 | 333 | - | 224 | 28 | - | (62) | - | - | - |
| Other | - | - | 2,035 | 331 | (52) | (6) | (1,190) | 295 | - | (18) | - |
| Income tax on dividends | - | - | - | - | - | - | - | - | - | - | - |
| Actual income tax for the reporting year: | 18 | 5 | 4,272 | 103 | 1,906 | 199 | 22 | 474 | - | 56 | 654 |
| Effective income tax rate | 25% | 15% | 0% | 18% | 21% | 19% | 13% | 22% | 16% | 9% | 35% |
| 2018 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Profit/ (loss) before income tax | 13,304 | 44 | 9,884 | 1,818 | 4,855 | 1,235 | (4,369) | 1,049 | (890) | 3,836 | 1,278 |
| Income tax rate | 25% | 15% | 20% | 18% | 21% | 19% | 13% | 22% | 16% | 9% | 35% |
| Tax calculated at domestic tax rates applicable to profits in respective countries | 3,302 | 8 | 3,272 | 327 | 1,020 | 235 | - | 231 | - | 326 | 447 |
| Income tax effect from profit taxable with 0% rate | (3,302) | - | (3) | - | (73) | - | - | - | - | - | - |
| Utilization of previously unrecognized tax loss | - | - | - | (327) | (91) | - | - | - | - | (324) | - |
| Permanent differences: | - | - | - | - | - | - | - | - | - | - | - |
| Non-operating expense | 15 | - | 412 | - | 94 | 19 | 1,058 | 513 | - | - | - |
| Other | - | - | 13 | - | 227 | - | - | - | - | - | - |
| Income tax withheld on dividends | - | - | - | - | - | - | - | - | - | - | - |
| Actual income tax for the reporting year: | 15 | 9 | 3,694 | - | 1,176 | 253 | 1,058 | 743 | - | 2 | 447 |
| Reversal of deferred tax | - | - | - | - | - | - | - | - | - | - | - |
| Corporate income tax charged to the statement of profit or loss: | 15 | 9 | 3,694 | - | 1,176 | 253 | 1,058 | 743 | - | 2 | 447 |
| Effective income tax rate | 25% | 15% | 20% | 18% | 21% | 19% | 13% | 22% | 16% | 9% | 35% |

11 Income tax (continued)

| | Latvia | Lithuania/ Poland | Estonia/Russia/Kazakhstan | Ukraine | Slovakia | Slovenia/Czech Republic | Cyprus | Sweden | Romania | Switzerland | Malta |
|--|----------------|-------------------|---------------------------|----------------|----------------|-------------------------|----------------|----------------|----------------|----------------|----------------|
| 2019 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Profit/ (loss) before income tax | 1,440 | 48 | 8,277 | 3,520 | 7,071 | 837 | 8,664 | 1,005 | (206) | 1,298 | 1,669 |
| Income tax rate | 25% | 15% | 20% | 18% | 21% | 19.00% | 13% | 21% | 16% | 14% | 35% |
| Tax calculated at domestic tax rates applicable to profits in respective countries | 319 | 7 | 1,707 | 634 | 1,548 | 159 | 1,083 | 215 | - | 182 | 584 |
| Income tax effect from profit taxable with 0% rate | (319) | - | (5) | - | - | - | - | - | - | - | - |
| Utilization of previously unrecognized tax loss | - | (5) | (2) | (837) | - | - | - | - | - | (115) | - |
| Permanent differences: | - | - | - | - | - | - | - | - | - | - | - |
| Non-operating expense | 16 | 3 | 297 | - | 200 | 25 | - | (55) | - | - | - |
| Other | - | - | 1,817 | 295 | (46) | (6) | (1,063) | 264 | - | (16) | - |
| Income tax on dividends | - | - | - | - | - | - | - | - | - | - | - |
| Actual income tax for the reporting year: | 16 | 4 | 3,815 | 92 | 1,703 | 178 | 20 | 424 | - | 50 | 584 |
| Effective income tax rate | 25% | 15% | 0% | 18% | 21% | 19% | 13% | 22% | 16% | 9% | 35% |
| 2018 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Profit/ (loss) before income tax | 11,264 | 37 | 8,369 | 1,540 | 4,111 | 1,046 | (3,699) | 888 | (754) | 3,248 | 1,083 |
| Income tax rate | 25% | 15% | 20% | 18% | 21% | 19% | 13% | 22% | 16% | 9% | 35% |
| Tax calculated at domestic tax rates applicable to profits in respective countries | 2,796 | 7 | 2,771 | 277 | 863 | 199 | - | 195 | - | 276 | 379 |
| Income tax effect from profit taxable with 0% rate | (2,796) | - | (3) | - | (62) | - | - | - | - | - | - |
| Utilization of previously unrecognized tax loss | - | - | - | (277) | (77) | - | - | - | - | (275) | - |
| Permanent differences: | - | - | - | - | - | - | - | - | - | - | - |
| Non-operating expense | 13 | - | 349 | - | 80 | 16 | 895 | 434 | - | - | - |
| Other | - | - | 11 | - | 192 | - | - | - | - | - | - |
| Income tax withheld on dividends | - | - | - | - | - | - | - | - | - | - | - |
| Actual income tax for the reporting year: | 13 | 7 | 3,128 | - | 996 | 215 | 895 | 629 | - | 1 | 379 |
| Reversal of deferred tax | - | - | - | - | - | - | - | - | - | - | - |
| Corporate income tax charged to the statement of profit or loss: | 13 | 7 | 3,128 | - | 996 | 215 | 895 | 629 | - | 1 | 379 |
| Effective income tax rate | 25% | 15% | 20% | 18% | 21% | 19% | 13% | 22% | 16% | 9% | 35% |

12 Earnings per share

The Group has no dilutive potential shares therefore diluted earnings per share are equal to basic earnings per share.

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | 2019 | 2018 | 2019 | 2018 |
|--|-----------------|-----------------|-----------------|-----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Profit attributable to equity holders of the Parent Company | 16,500 | 9,590 | 14,739 | 8,120 |
| Weighted average number of ordinary shares in issue (thousand) | 9,785 | 9,785 | 9,785 | 9,785 |
| Basic earnings per share (EUR/USD per share) | 1.69 | 0.98 | 1.51 | 0.83 |

13 Dividends per share

During the year the Company has paid out dividends on prior year retained earnings in amount of USD 40,551 thousand or EUR 36,410 thousand (USD 4.14 or EUR 3.72 per share) (prior year 2018 USD 6,107 thousand or EUR 5,000 thousand).

Dividends amount paid in cash during the year 2019 was USD 7 thousand (EUR 6,225 thousand). Dividends amount of USD 33,551 (EUR 30,160) was offsetted through loan from shareholders (see note 22).

14 Intangible assets

| | Software | | Goodwill | | Total | |
|--|--------------|------------|--------------|--------------|--------------|--------------|
| | USD '000 | EUR '000 | USD '000 | EUR '000 | USD '000 | EUR '000 |
| At 31 December 2017 | | | | | | |
| Cost | 2,176 | 1,814 | 1,759 | 1,467 | 3,935 | 3,281 |
| Accumulated amortisation | (1,264) | (1,054) | - | - | (1,264) | (1,054) |
| Net book amount at 31 December 2017 | 912 | 760 | 1,759 | 1,467 | 2,671 | 2,227 |
| 2018 | | | | | | |
| Opening net book amount | 912 | 760 | 1,759 | 1,467 | 2,671 | 2,227 |
| Exchange differences | 66 | 94 | 9 | 77 | 75 | 171 |
| Additions | 260 | 226 | 910 | 780 | 1,170 | 1,006 |
| Disposals/reclasification* | (722) | (630) | (910) | (780) | (1,632) | (1,410) |
| Changes in consolidated Group (cost) | 537 | 469 | - | - | 537 | 469 |
| Changes in consolidated Group (accumulated amortisation) | (56) | (49) | - | - | (56) | (49) |
| Amortisation charge | (29) | (24) | - | - | (29) | (24) |
| Closing net book amount at 31 December 2018 | 968 | 846 | 1,768 | 1,544 | 2,736 | 2,390 |
| At 31 December 2018 | | | | | | |
| Cost | 2,317 | 1,973 | 1,768 | 1,544 | 4,085 | 3,517 |
| Accumulated amortisation | (1,349) | (1,127) | - | - | (1,349) | (1,127) |
| At 31 December 2018 | 968 | 846 | 1,768 | 1,544 | 2,736 | 2,390 |
| 2019 | | | | | | |
| Opening net book amount | 968 | 846 | 1,768 | 1,544 | 2,736 | 2,390 |
| Exchange differences | 64 | 72 | (165) | (117) | (101) | (45) |
| Additions | 357 | 317 | - | - | 357 | 317 |
| Disposals/reclasification | (31) | (27) | - | - | (31) | (27) |
| Changes in consolidated Group (cost) | (22) | (20) | - | - | (22) | (20) |
| Changes in consolidated Group (accumulated amortisation) | (14) | (12) | - | - | (14) | (12) |
| Amortisation charge | (228) | (203) | - | - | (228) | (203) |
| Closing net book amount at 31 December 2019 | 1,094 | 973 | 1,603 | 1,427 | 2,697 | 2,400 |
| At 31 December 2019 | | | | | | |
| Cost | 2,685 | 2,316 | 1,603 | 1,427 | 4,288 | 3,742 |
| Accumulated amortisation | (1,591) | (1,343) | - | - | (1,591) | (1,343) |
| Net book amount at 31 December 2019 | 1,094 | 973 | 1,603 | 1,427 | 2,697 | 2,400 |

* On 2 June 2015, AS ELKO Grupa signed an agreement with DL Distributors OU on the acquisition of DELL business in Estonia for the amount of EUR 300,000. With the acquisition of "DL Distributors" OU business, ELKO Group expand its product portfolio in the Baltics and was granted with DELL distribution rights also in Latvia and Lithuania. Goodwill is the purchase price paid for distribution rights. As at December 2018 Goodwill was assessed by reviewing DELL product turnover, gross margin and operating profit margin for DELL products. Calculated value in use appeared to be lower then carrying amount of asset and, as a result, Goodwill was fully written off at the end of year 2018.

Amortisation expenses of intangible assets in the amount of USD 228 thousand or EUR 203 thousand (2018: USD 30 thousand or EUR 26 thousand) have been charged in statement of profit or loss and are shown in administrative expenses. The cost of fully amortised intangible assets at 31 December 2019 was USD 1,113thousand or EUR 991 thousand (2018: USD 2,134 thousand or EUR 1,864thousand).

All intangible assets have been pledged to secure bank credit lines (Note 22).

15 Property, plant and equipment and leases

15.1 Property, plant and equipment

| | Property | | Leashold improvements | | Communication and computer engineering | | Other fixed assets | | Total | |
|---|---------------|---------------|-----------------------|------------|--|--------------|--------------------|--------------|---------------|---------------|
| | USD | EUR | USD | EUR | USD | EUR | USD | EUR | USD | EUR |
| At 31 December 2017 | | | | | | | | | | |
| Cost | 20,240 | 17044 | 239 | 199 | 3120 | 2601 | 4901 | 4087 | 28,500 | 23,931 |
| Accumulated depreciation | (3,879) | (3,234) | (188) | (156) | (2,565) | (2,139) | (2,342) | (1,953) | (8,974) | (7,482) |
| Net book amount at 31 December 2017 | 16,361 | 13,810 | 51 | 43 | 555 | 462 | 2,559 | 2,134 | 19,526 | 16,449 |
| 2018 | | | | | | | | | | |
| Opening net book amount | 16,361 | 13,810 | 51 | 43 | 555 | 462 | 2,559 | 2,134 | 19,526 | 16,449 |
| Exchange differences | (154) | 344 | 1 | 2 | 7 | 28 | 120 | 147 | (26) | 521 |
| Additions | - | - | 45 | 39 | 712 | 622 | 136 | 119 | 893 | 780 |
| Disposals at cost | (11,502) | (10,045) | 33 | 29 | 777 | 679 | 1,772 | 1,548 | (8,920) | (7,789) |
| Changes in consolidated Group (cost) | (3,969) | (3,466) | (20) | (17) | (751) | (656) | 107 | 93 | (4,633) | (4,046) |
| Changes in consolidated Group (accumulated depreciation) | 20 | 17 | 57 | 50 | 310 | 271 | (469) | (410) | (82) | (72) |
| Depreciation charge | (756) | (660) | (54) | (47) | (461) | (403) | (971) | (789) | (2,242) | (1,899) |
| Closing net book amount at 31 December 2018 | - | - | 113 | 99 | 1,149 | 1,003 | 3,254 | 2,842 | 4,516 | 3,944 |
| At 31 December 2018 | | | | | | | | | | |
| Cost | 4,615 | 3,877 | 297 | 252 | 3,865 | 3,274 | 6,916 | 5,847 | 15,693 | 13,250 |
| Accumulated depreciation | (4,615) | (3,877) | (184) | (153) | (2,716) | (2,271) | (3,662) | (3,005) | (11,177) | (9,306) |
| Net book amount at 31 December 2018 | - | - | 113 | 99 | 1,149 | 1,003 | 3,254 | 2,842 | 4,516 | 3,944 |
| 2019 | | | | | | | | | | |
| Opening net book amount | - | - | 113 | 99 | 1,149 | 1,003 | 3,254 | 2,842 | 4,516 | 3,944 |
| Exchange differences | - | - | - | 1 | 103 | 111 | 43 | 93 | 146 | 205 |
| Additions | - | - | 140 | 125 | 850 | 757 | 1,765 | 1,571 | 2,755 | 2,453 |
| Disposals at cost/reclassifications | - | - | (1) | (1) | (404) | (360) | 94 | 84 | (311) | (277) |
| Changes in consolidated Group (cost) | - | - | (1) | (1) | 26 | 23 | (346) | (308) | (321) | (286) |
| Changes in consolidated Group (accumulated depreciation) | - | - | (8) | (7) | 14 | 13 | 256 | 228 | 262 | 234 |
| Depreciation charge | - | - | (36) | (32) | (485) | (432) | (1,119) | (996) | (1,640) | (1,460) |
| Closing net book amount 31 December 2019 | - | - | 207 | 184 | 1,253 | 1,115 | 3,947 | 3,514 | 5,407 | 4,813 |
| At 31 December 2019 | | | | | | | | | | |
| Cost | 4,615 | 3,877 | 435 | 375 | 4,337 | 3,694 | 8,429 | 7,194 | 17,816 | 15,140 |
| Accumulated depreciation | (4,615) | (3,877) | (228) | (191) | (3,084) | (2,579) | (4,482) | (3,680) | (12,409) | (10,327) |
| Net book amount at 31 December 2019 | - | - | 207 | 184 | 1,253 | 1,115 | 3,947 | 3,514 | 5,407 | 4,813 |

15.1 Property, plant and equipment (continued)

Depreciation expenses of tangible assets in the amount of USD 1,640 thousand or EUR 1,460 thousand (2018: USD 2,242 thousand or EUR 1,899 thousand) have been charged in statement of profit or loss and are shown in administrative expenses.

The cost of fully depreciated property, plant and equipment at 31 December 2019 was USD 3,402 thousand or EUR 3,029 thousand (2018: USD 23,532 thousand or EUR 20,552 thousand).

All tangible assets have been pledged to secure bank credit lines (Note 22).

15.2 Leases

Group as a lessee

The Group has lease contracts for various premises – office space, warehouse and stores with wide range of lease terms between 2-15 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets, except office space of Group's Parent company, where sub-lease is allowed and executed.

There are several lease contracts that include extension and termination options, which are further discussed below.

The Group also has certain leases of premises with lease terms of 12 months or less and with low value. The Group 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 recognised and the movements during the period:

| | Premises USD '000 | Total USD '000 | Premises EUR '000 | Total EUR '000 |
|-------------------------------|----------------------|-------------------|----------------------|-------------------|
| As at 1 January 2019 | 30,770 | 30,770 | 27,390 | 27,390 |
| Additions | 2,318 | 2,318 | 2,064 | 2,064 |
| Depreciation expense | (6,084) | (6,084) | (5,435) | (5,435) |
| Exchange difference | (22) | (22) | - | - |
| As at 31 December 2019 | 26,982 | 26,982 | 24,019 | 24,019 |

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

| | 2019 USD '000 | 2019 EUR '000 |
|--------------------------------|------------------|------------------|
| As at 1 January 2019 | 30,770 | 27,390 |
| Additions | 2,318 | 2,063 |
| Accretion of interest | 1,428 | 1,276 |
| Payments | (7,022) | (6,250) |
| Exchange difference | 5 | (1) |
| As at 31 December 2019* | 27,499 | 24,478 |

The following incremental borrowing rates are used in lease liability calculation:

ELKO Grupa AS – 2.6%

Gandalf Distribution – 2%

ELKOTech Romania SRL – 5.3%

ELKO Rus LTD, TD Absolut LLC – 10%

ELKO Ukraine LLC – 18%

WESTech spol. s r.o., WESTech CZ s r.o., Arašid spol. s r.o. – 2.34%

15.2 Leases (continued)

The maturity analysis of lease liabilities:

| | USD '000 | EUR '000 |
|--------------------------------|---------------|---------------|
| Non-current liabilities | | |
| Lease liabilities | 21,111 | 18,792 |
| Current liabilities | | |
| Lease liabilities | 6,388 | 5,686 |
| As at 31 December 2019 | 27,499 | 24,478 |

The following are the amounts recognised in profit or loss:

| | 2019 USD '000 | 2019 EUR '000 |
|---|------------------|------------------|
| Depreciation expense of right-of-use assets | 6,084 | 5,435 |
| Interest expense on lease liabilities | 1,428 | 1,276 |
| Expense relating to short-term and low value leases (included in cost of sales) | 430 | 384 |
| Total amount recognised in profit or loss | 7,942 | 7,095 |

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3).

Rent agreement with Lessor's option to terminate agreement within 1 year time with no substantial penalties are considered by the Group as short term agreements. The Group does not have any agreements, where it plans not to execute extension option and execute termination option of rent agreement.

Group as a lessor

The Group has concluded several sub-lease (operating leases) agreements for its premises. Sub-lease agreements are with a different terms from 1 to 14 years. Rental income recognised by the Group during the year is USD 352 thousand (EUR 315 thousand) (2018: USD 233 thousand (EUR 197 thousand)).

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

| | 2019 USD '000 | 2019 EUR '000 |
|---|------------------|------------------|
| Within one year | 300 | 267 |
| After one year but not more than five years | 1,094 | 974 |
| More than five years | 1,035 | 922 |
| | 2,429 | 2,163 |

16 Non current loans

| | 31.12.2019. USD '000 | 31.12.2018. USD '000 | 31.12.2019. EUR '000 | 31.12.2018. EUR '000 |
|----------|-------------------------|-------------------------|-------------------------|-------------------------|
| Swiss CZ | 138 | 81 | 123 | 70 |
| | 138 | 81 | 123 | 70 |

17 Inventories

| | 31.12.2019. | 31.12.2018. | 31.12.2019. | 31.12.2018. |
|--|----------------|----------------|----------------|----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Trade inventory | 140,917 | 156,311 | 125,437 | 136,517 |
| Trade inventory in transit | 36,893 | 11,821 | 32,840 | 10,324 |
| Prepayments for trade inventory | 2,163 | 2,380 | 1,926 | 2,078 |
| Less - Provisions for inventory on*: | (11,077) | - | (9,860) | - |
| Total inventories at the lower of cost and net realisable value | 168,896 | 170,512 | 150,343 | 148,919 |

*Due to slow down on CIS market at year end and several canceled projects Group had increased amount of slow moving items as at 31 December 2019, and considering events after the reporting period described in Note 29, management has made a decision to make provisions for these items.

Estimates of net realisable value of inventory are based on the most reliable evidence available at the time the estimates are made. As such estimates are continuously evaluated; it is common that in the normal course of business, circumstances that previously caused inventories to be written down below cost no longer exist resulting in reversals of write-downs.

The cost of inventories recognised as expense and included in cost of sales amounted to USD 2,050,881 thousand or EUR 1,831,969 thousand (2018: USD 1,886,985 thousand or EUR 1,597,746 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group (USD 36,893 thousand (2018: 10,188 thousand) or EUR 32,840 thousand (2018: EUR 8,897 thousand) and trade inventory in transit have been pledged to secure bank credit lines (Note 22).

Of the total inventories consignment inventories as at 31 December 2019 were USD 23,061 thousand or EUR 20,528 thousand (2018: USD 21,239 thousand or EUR 18,549 thousand).

18 Trade and other receivables and prepayments

| | 31.12.2019. | 31.12.2018. | 31.12.2019. | 31.12.2018. |
|---|----------------|----------------|----------------|----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Trade receivables | 231,233 | 188,880 | 205,833 | 164,961 |
| Less: allowance for impairment of trade receivables | (1,921) | (3,821) | (1,710) | (3,337) |
| Trade receivables – net | 229,312 | 185,059 | 204,123 | 161,624 |
| Advances to suppliers | 4,408 | 432 | 3,924 | 377 |
| VAT receivable | 18,178 | 18,604 | 16,182 | 16,248 |
| Accrued discounts and other debtors* | 1,907 | 5,847 | 1,697 | 5,107 |
| Custom prepayments | 2,325 | 2,265 | 2,069 | 1,978 |
| Debt on factoring | 12,256 | 31,928 | 10,910 | 27,885 |
| Other tax receivable in foreign countries | 141 | 326 | 125 | 285 |
| | 268,527 | 244,461 | 239,030 | 213,504 |

*Accrued discounts consist of accrued rebates from vendors. Other Debtors consist of prepayments to vendors. All trade receivables have been pledged to secure bank credit lines (Note 22). The acquisition of a subsidiary resulted in increase in trade receivables of USD 31 million in 2018 (EUR 27 million) (Note 21). Trade receivables are non-interest bearing and are generally on 7-90 days' terms.

Movements in the allowance for impairment of trade receivables are as follows:

| | 2019 | 2018 | 2019 | 2018 |
|------------------------------------|--------------|--------------|--------------|--------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| At 1 January | 3,821 | 926 | 3,337 | 772 |
| Provision for expected credit loss | 575 | 3,008 | 513 | 2 660 |
| Used allowances | (2,475) | (113) | (2,140) | (95) |
| At 31 December | 1,921 | 3,821 | 1,710 | 3,337 |

The creation and release of allowance for impaired receivables have been included in other operating expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

19 Cash deposits, cash and cash equivalents

| | 31.12.2019. | 31.12.2018. | 31.12.2019. | 31.12.2018. |
|-----------------------------|---------------|---------------|---------------|---------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Cash at banks and on hand | 27,328 | 51,107 | 24,328 | 44,635 |
| Deposits more than 3 months | 2,000 | 1,500 | 1,779 | 1,310 |
| | 29,328 | 52,607 | 26,107 | 45,945 |

All cash and cash deposits have been pledged to secure bank credit lines (Note 22) but the Group has unlimited access to these funds.

20 Issued capital and reserves

20.1 Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2018: 9,785 thousand shares) with a par value of USD 1.1358 or EUR 1.00 per share (2018: USD 1.1358 or EUR 1.00 per share). All issued shares are fully paid. There were no share options outstanding for any of the years presented. All issued shares were purchased by cash contribution.

20.2 Share Premium

During 2005 share capital was increased, attracting new shareholders. As a result of share capital increase and attraction of new shareholders, share premium reserve in the amount of USD 5,996 or EUR 4,974 thousand was created.

20.3 Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations. The main portion of translation reserve appeared due to the fact, that retained earnings are measured on transaction date exchange rate instead of closing rate.

21 Investment

Gandalf Distribution AB

In July 2017 ELKO Group AS acquired 85% of shareholding in Gandalf Distribution AB.

Based on Share purchase agreement Net assets at acquisition were decreased for the provision for the debt of ONOFF Sverige AB and it was agreed, that in case of recovery of this debt 60% of amount recovered will be paid as additional purchase consideration. In year 2018 Gandalf Distribution AB has recovered 961 thousand SEK of ONOFF Sverige AB debt. As a result ELKO Group AS has paid additional consideration of 577 thousand SEK (63 thousand USD). As recovery of bad debt also increases fair value of net assets at purchase, this transaction does not have any impact on the value of Goodwill.

On 29.08.2019 Company has executed its call option to purchase residual 15% of the shares for SEK 6 238 578 (USD 670 873 or EUR 597 176). This transaction does not have any effect on Goodwill, as at the initial acquisition 100% of shareholding was recognized and whole amount of consideration was taken into account for Goodwill recognition. The Group acquired Gandalf Distribution AB because it significantly enlarges the range of products and Elko Group presence on the Nordic market.

Group has elected to measure non-controlling interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The financial statements include the results of acquired companies from acquisition date till the end of reporting period.

Assets acquired and liabilities assumed.

The identifiable assets and liabilities of Gandalf Distribution AB as at the date of acquisition were:

| | USD | EUR |
|------------------------------|---------------|---------------|
| ASSETS | 19,607 | 17,181 |
| NON CURRENT ASSETS | 73 | 64 |
| Intangible assets | 6 | 5 |
| Property plant and equipment | 67 | 58 |
| CURRENT ASSETS | 19,535 | 17,118 |
| Inventories | 6,075 | 5,323 |
| Trade debtors | 12,047 | 10,556 |
| Other debtors | 976 | 855 |
| Corporate income tax | 277 | 243 |
| Cash and cash equivalents | 160 | 141 |

21 Investment (continued)

| | | |
|---------------------------------------|---------------|---------------|
| LIABILITIES | 16,491 | 14,450 |
| Interest-bearing loans and borrowings | 376 | 330 |
| Other financing | 7,359 | 6,447 |
| Trade accounts payable | 5,883 | 5,155 |
| Other current liabilities | 2,740 | 2,401 |
| Corporate income tax | 133 | 117 |
| Total identifiable net asstes | 3,116 | 2,731 |
| Goodwill arising on acquisition | 1,759 | 1,541 |
| Purchase consideration transferred | 4,027 | 3,529 |

The goodwill of USD 1,759 thousand (EUR 1,536 thousand) comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Goodwill is allocated entirely to Gandalf Distribution AB business.

Due to the contractual terms imposed on acquisition, the customer list is not separable. Therefore, it does not meet the criteria for recognition as an intangible asset under IAS 38. None of the goodwill recognized is expected to be deductible for income tax purposes.

AST Balt

In July 2017 ELKO Group AS acquired 100% of shareholding in AST Balt. The Group has acquired AST Balt in order to diversify its business, as well as to have more control over administration of its office premises.

AST Balt purchase in consolidated financial statement was treated as asset purchase. Assets and liabilities at acquisition were valued at Fair Value. Goodwill was allocated to separately identifiable assets and liabilities. As it is considered that financial assets and liabilities were presented at Fair Value, goodwill was allocated to real estate.

In year 2018 AST Balt sold its Real Estate for USD 16,431 million (EUR 14,450 million), as a result Goodwill allocated to real estate of USD 3,969 million (EUR 3,478 million) was written off to current period profit or loss.

Purchase price allocation at acquisition:

| | Fair value | | % | AST Balt at acquisition | | Purchase price allocation | |
|-------------------------------|------------------|------------------|-------------|-------------------------|----------------|---------------------------|------------------|
| | EUR | USD | | EUR | USD | EUR | USD |
| Intangible assets | 35 | 40 | 0% | 35 | 40 | 35 | 40 |
| Trade receivables | 285,726 | 326,071 | 2% | 285,726 | 326,071 | 285,726 | 326,071 |
| Investment properties | 14,665,000 | 16,735,698 | 365% | 10,664,817 | 12,170,689 | 14,142,816 | 16,139,782 |
| Inventory | 1,776 | 2,027 | 0% | 1,776 | 2,027 | 1,776 | 2,027 |
| Cash and cash equivalent | 8,084 | 9,225 | 0% | 8,084 | 9,225 | 8,084 | 9,225 |
| Other payables | (29,980) | (34,213) | 0% | (29,980) | (34,213) | (29,980) | (34,213) |
| Deferred income | (87,750) | (100,140) | -2% | (87,750) | (100,140) | (87,750) | (100,140) |
| Trade payables | (328,876) | (375,313) | -1% | (328,876) | (375,313) | (328,876) | (375,313) |
| Other loans | (3,612,231) | (4,122,278) | -90% | (3,612,231) | (4,122,278) | (3,612,231) | (4,122,278) |
| Loans from credit institution | (6,779,600) | (7,736,880) | -175% | (6,779,600) | (7,736,880) | (6,779,600) | (7,736,880) |
| Total | 4,122,184 | 4,704,236 | 100% | 122,001 | 139,228 | 3,600,000 | 4,108,320 |

21 Investment (continued)

TD Absolut LLC

In June 2018 ELKO Group AS acquired 100% of shareholding in TD Absolut LLC in order to diversify its product portfolio in Russia and introduce household appliance to Russian market. Assets and liabilities of the Company were measured at fair value. Purchase consideration transferred in amount of USD 1 957 377 (EUR 1 709 500) is very close to the Fair value of net assets; therefore, Goodwill had been considered to be insignificant and was not recognized in financial statements.

However, as at 31 December 2019 some account receivables, which had been considered as unrecoverable and for which provisions had been made, were recovered. As a result, initially calculated goodwill was reviewed and negative goodwill of USD 1 311 thousand (EUR 1 120 thousand) was recognized in Retained Earnings.

| | Fair Value at acquisition, USD | Fair Value at acquisition, EUR | Restated Fair Value at acquisition, USD | Restated Fair Value at acquisition, EUR |
|--------------------|--------------------------------|--------------------------------|---|---|
| Non current assets | 499,518 | 426,664 | 499,518 | 426,664 |
| Inventory | 19,800,694 | 16,912,767 | 19,800,694 | 16,912,767 |
| Trade receivables | 30,395,393 | 25,962,231 | 31,707,562 | 27,082,697 |
| TAX receivables | 29,508 | 25,204 | 29,508 | 25,204 |
| Other receivables | 27,026 | 23,084 | 27,026 | 23,084 |
| Cash | 1,003,513 | 857,151 | 1,003,513 | 857,151 |
| Long term loans | 1,541,157 | 1,316,380 | 1,541,157 | 1,316,380 |
| Short term loans | 10,883,830 | 9,296,425 | 10,883,830 | 9,296,425 |
| Trade payables | 24,008,455 | 20,506,827 | 24,008,455 | 20,506,827 |
| Tax payables | 13,338,238 | 11,392,859 | 13,338,238 | 11,392,859 |
| Other liabilities | 229,697 | 196,195 | 229,697 | 196,195 |
| Net assets | 1,754,275 | 1,498,415 | 3,066,103 | 2,618,881 |

ARAŠID spol. s r.o.

In June 2018 in order to step into the gaming product market, WESTech s.r.o. for consideration of USD 933 thousand (EUR 800 thousand) acquired 65% of ARAŠID spol. s r.o., ELKO Group AS through this transaction effectively gained 33.5% of shareholding in ARAŠID spol. s r.o.

Group has elected to measure non-controlling interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

On 14 December 2019 WESTech s.r.o. has acquired the residual 35% of ARAŠID spol. s r.o. for consideration of EUR 571 000 (USD 632 725).

Assets acquired and liabilities assumed

The identifiable assets and liabilities of ARAŠID spol. s r.o. as at the date of acquisition were:

| | Fair value at acquisition, EUR | Fair value at acquisition, USD |
|---------------------------------------|--------------------------------|--------------------------------|
| NON CURRENT ASSETS | 789,841 | 920,797 |
| Inventories | 1,379,425 | 1,608,133 |
| Trade debtors | 125,716 | 146,560 |
| Other debtors | 515,782 | 601,299 |
| Cash | - | 1,056,552 |
| Interest-bearing loans and borrowings | 223,250 | 260,265 |
| Trade accounts payable | 879,534 | 1,025,361 |
| Other current liabilities | 782,486 | 912,223 |
| Net assets | 19,203 | 22,387 |
| Purchase consideration transferred | 800,000 | 932,640 |
| Goodwill arising at acquisition | 780,797 | 910,253 |

Considering the fact that ARAŠID spol. s r.o. has finalized year 2018 with loss of USD 190 thousand, which is below the forecasted result, the goodwill of USD 910 thousand (EUR 780 thousand) was fully impaired. The financial statements include the results of acquired companies from acquisition date till the end of reporting period.

22 Interest-bearing loans and borrowings

| Current | Interest rate % | Maturity | 31.12.2019. USD '000 | 31.12.2018. USD '000 | 31.12.2019. EUR '000 | 31.12.2018. EUR '000 |
|---|---|------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Obligations under finance lease | 1-8% | 2021-2024 | - | 31 | - | 27 |
| Bank loans and credit lines | | | | | | |
| Credit line from Swedbank (USD facility) | USD LIBOR3M +4.5% | 31.07.2020 | - | 38 | - | 33 |
| Credit line from Luminor Bank | Overnight LIBOR USD/EONIA EUR +3.2% | 31.07.2020 | 4,904 | 11,033 | 4,365 | 9,636 |
| Credit line from OP Corporate Bank plc | USD LIBOR3M +3.45% | 31.07.2020 | 18,586 | 105 | 16,544 | 92 |
| Credit line from Transilvania Bank (Romania) | RON ROBOR6M +2.1% | 24.05.2020 | 5,839 | 6,382 | 5,198 | 5,574 |
| Credit line from Transilvania Bank (Romania) | RON ROBOR6M +2.1% | 25.05.2020 | 1,174 | 1,841 | 1,045 | 1,608 |
| SKB Bank d.d. (Slovenia) | EURIBOR1M +1.1% | 08.10.2020 | 455 | 1,145 | 405 | 1,000 |
| NLB Bank d.d. (Slovenia) | 1.30% | 29.09.2020 | - | 802 | - | 700 |
| Credit line Sberbank (Russia) | 8.40% | 12.06.2021 | 43,358 | 18,673 | 38,595 | 16,309 |
| Trade finance facility (Russia) | 10.00% | 2020/2022 | - | 10,653 | - | 9,304 |
| VTB (Russia) | 9.25% | 18.11.2020 | 10,920 | 15,918 | 9,720 | 13,902 |
| Trade finance facility (Kazakhstan) | 17.00% | 25.02.2020 | - | 91 | - | 79 |
| Alfabank (Kazakhstan) | 16.50% | 25.02.2020 | - | 956 | - | 835 |
| Trade finance facility JSC OTP Bank (Ukraine) | 18.50% | 31.05.2022 | 4,320 | 10,302 | 3,845 | 8,997 |
| Credit line CREDIT AGRICOLE Bank (Ukraine) | 14.50% | 30.04.2020 | 5,931 | 939 | 5,280 | 820 |
| UkrSibbank (Ukraine) | 21.50% | 07.10.2019 | - | 936 | - | 817 |
| Credit line OTP (Ukraine) | 24.50% | 29.03.2019 | - | 400 | - | 349 |
| Credit line from Danske Bank (Sweden) | 2.79% | 31.12.2020 | 2,626 | 2,037 | 2,338 | 1,779 |
| Trade finance facility Danske Bank (Sweden) | 2.15-3.89% | 31.12.2020 | 10,144 | 9,573 | 9,030 | 8,361 |
| Trade Finance program Deutsche Bank | LIBOR3M +3.75% | 20.12.2020 | 11,095 | 17,550 | 9,876 | 15,328 |
| ELBATEX | 1.90% | 02.02.2020 | 67 | 240 | 60 | 210 |
| Československá obchodní banka, a.s. (Slovakia) | EURIBOR3M +1.3% | 10.01.2024 | 292 | 90 | 261 | 79 |
| Slovenská sporiteľňa, a.s. (Slovakia) | EURIBOR3M +2.34% | 30.06.2020 | 51 | 34 | 45 | 30 |
| Slovenská sporiteľňa, a.s. - overdraft | EURIBOR3M +2.34% | 30.06.2020 | 334 | 252 | 297 | 220 |
| Other loans: | | | | | | |
| Interest-bearing loans from related | 5% | 30.12.2020 | 12,613 | - | 11,228 | - |
| Other - credit cards | | | 10 | 5 | 9 | 4 |
| Lease liabilities* | | | 6,388 | - | 5,686 | - |
| | | | 139,107 | 110,026 | 123,827 | 96,093 |
| Non-current | | | | | | |
| Bank borrowings- OP Corporate Bank plz | EURIBOR3M +2.6% | 22.12.2021 | - | - | - | - |
| Obligations under finance lease and hire purchase contracts | 5-6% | 2021/2024 | - | 45 | - | 39 |
| Interest-bearing loans from related** | 5% | 30.12.2021 | 20,817 | - | 18,531 | - |
| Československá obchodní banka, a.s. (Slovakia) | EURIBOR3M +1.3% | 10.01.2024 | 245 | 402 | 218 | 352 |
| Slovenská sporiteľňa, a.s. (Slovakia) | EURIBOR3M +2.34% | 30.06.2021 | - | 155 | - | 135 |
| Lease liabilities* | | | 21,111 | | 18,792 | |
| | | | 42,173 | 602 | 37,541 | 526 |
| | | | 181,280 | 110,628 | 161,368 | 96,619 |

* Lease liabilities in accordance with IFRS16.

**Loan issued as an offset of dividends.

22 Interest-bearing loans and borrowings (continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 31.12.2019. | 31.12.2018. | 31.12.2019. | 31.12.2018. |
|-----|----------------|----------------|----------------|---------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| USD | 68,014 | 28,731 | 60,543 | 25,094 |
| RUB | 58,912 | 45,244 | 52,441 | 39,514 |
| EUR | 22,571 | 3,197 | 20,092 | 2,792 |
| RON | 7,013 | 8,223 | 6,243 | 7,182 |
| UAH | 11,022 | 12,576 | 9,811 | 10,983 |
| KZT | 0 | 1,047 | 0 | 914 |
| SEK | 13,748 | 11,610 | 12,238 | 10,140 |
| | 181,280 | 110,628 | 161,368 | 96,619 |

Borrowings are secured by property, plant and equipment, intangible assets, trade receivables and inventory (Notes 14, 15.1, 17 and 18). The fair value of current borrowings approximates their carrying amount, as they bear floating interest rates and the impact of discounting is not significant. The average effective interest rate on the bank borrowings as at 31 December 2019 was 7.46% (2018: 8.47%). Fair values are disclosed in Note 26.

As at December 31, 2019 the Group had following undrawn available financing facilities:

| | USD'000 | EUR'000 |
|---|----------------|----------------|
| BANCA TRANSILVANIA (Romania) | 2,946 | 2,622 |
| Credit line from Luminor Bank | 25,595 | 22,784 |
| Credit line from OP Corporate Bank plc Latvia | 1,414 | 1,259 |
| Credit line from AS SWEDBANKA | 7,500 | 6,676 |
| Credit line from Danske bank | 1,676 | 1,492 |
| Credit line from Sberbank (Russia) | 36,934 | 32,878 |
| Credit line from Alfabank (Russia) | 14,774 | 13,151 |
| Credit line from VTB (Russia) | 29,227 | 26,017 |
| Československá obchodní banka a.s. (Slovakia) | 5,617 | 5,000 |
| Credit line from NLB D.D. (Slovenia) | 786 | 700 |
| Credit line CREDIT AGRICOLE Bank (Ukraine) | 69 | 61 |
| Credit line UkrSibbank (Ukraine) | 1,276 | 1,136 |
| | 127,814 | 113,776 |

Commitment fee is payable ibank mentioned below:

Luminor Bank 0.25%, Swedbanka AS 1.5%, OP Corporate Bank 0.4%; VTB 0.1%.

23 Trade and other payables

| | 31.12.2019. | 31.12.2018. | 31.12.2019. | 31.12.2018. |
|---------------------------------|----------------|----------------|----------------|----------------|
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Trade payables | 206,536 | 229,393 | 183,849 | 200,342 |
| Advances received* | 4,639 | 526 | 4,129 | 460 |
| Social security and other taxes | 3,395 | 4,519 | 3,022 | 3,947 |
| Unpaid salaries | 1,692 | 1,915 | 1,506 | 1,673 |
| Accrued expenses** | 14,741 | 14,339 | 13,122 | 12,523 |
| Other | 1,741 | 2,613 | 1,550 | 2,282 |
| | 232,744 | 253,305 | 207,178 | 221,227 |

*As at 31.12.2019. advance received from customers, defined by the Group as contract liabilities were 4,639 thousand USD (4,129 thousand EUR) (31.12.2018: 3,985 thousand USD (3,481 thousand EUR)).

** As at 31.12.2019 accrued expenses attributable for operational risk in Russia

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 90 day terms;
- Other payables are non-interested bearing and have an average term of 30 days;
- Interest payable is normally settled monthly throughout the financial year;
- For terms and conditions relating to related parties, refer to Note 27.

24 Changes in liabilities arising from financial activities

| | 1 January 2019 USD'000 | Cash flows USD'000 | Foreign exchange movement USD'000 | Changes in fair values USD'000 | New leases USD'000 | 31 December 2019 USD'000 |
|---|------------------------------|--------------------------|--|--------------------------------------|--------------------------|-----------------------------------|
| Non-current interest-bearing loans and borrowings | 602 | (21,489) | 21 | - | 21,111 | 245 |
| Current interest-bearing loans and borrowings | 110,026 | 64,608 | 7 | - | 6,388 | 181,028 |
| Derivative financial instruments | 50 | - | - | (43) | - | 7 |
| Total | 110,678 | 43,119 | 28 | (43) | 27,499 | 181,280 |

| | 1 January 2019 EUR'000 | Cash flows EUR'000 | Foreign exchange movement EUR'000 | Changes in fair values EUR'000 | New leases EUR'000 | 31 December 2019 EUR'000 |
|---|------------------------------|--------------------------|--|--------------------------------------|--------------------------|-----------------------------------|
| Non-current interest-bearing loans and borrowings | 526 | (19,118) | 19 | - | 18,792 | 219 |
| Current interest-bearing loans and borrowings | 96,093 | 59,357 | 6 | - | 5,686 | 161,143 |
| Derivative financial instruments | 43 | - | - | (37) | - | 6 |
| Total | 96,662 | 40,239 | 25 | (37) | 24,478 | 161,368 |

25 Derivative financial assets and financial liabilities

25.1 Financial assets

| | 2019 USD '000 | 2018 USD '000 | 2019 EUR '000 | 2018 EUR '000 |
|---|------------------|------------------|------------------|------------------|
| Financial instruments at fair value through profit or loss | | | | |
| Derivatives not designated as hedges | - | 605 | - | 528 |
| - Foreign exchange forward contracts | | | | |
| Total instruments at fair value through profit or loss | - | 605 | - | 528 |
| | USD '000 | USD '000 | EUR '000 | EUR '000 |
| Total financial assets | - | 605 | - | 528 |

In 2019 Group entered into foreign exchange derivative contracts for the sale of RUB against USD 423 million RUB amount (RUB 741 million in 2018) with a weighted average term of 19 days; the sale of USD against EUR 0.5 million EUR amount (EUR 6.8 million in 2018) with a weighted average term of 24 days; and the sale of RON 12.96 million against USD and EUR (in 2018 RON 11.7 million) with a weighted average term of 26 days. Foreign exchange forward contracts are valued at the fair value which is calculated at market rates.

2019 derivatives were used as risk management tools to mitigate the impact of currency fluctuations on sales prices and the open currency positions.

25.2 Financial liabilities

| | 2019 USD '000 | 2018 USD '000 | 2019 EUR '000 | 2018 EUR '000 |
|---|------------------|------------------|------------------|------------------|
| Financial instruments at fair value through profit or loss | | | | |
| - Foreign exchange forward contracts | (7) | (50) | (43) | (43) |
| Total instruments at fair value through profit or loss | (7) | (50) | (6) | (43) |
| Total financial liabilities | (7) | (50) | (6) | (43) |

26 Fair value measurement

Fair value measurement hierarchy as at 31 December 2019

| | Date of valuation | Total | | Quoted prices in active markets (Level 1) | | Fair value measurement using | | | |
|---|-------------------|-------------|-------------|--|-------------|---|-------------|---|-------------|
| | | | | | | Significant observable inputs (Level 2) | | Significant unobservable inputs (Level 3) | |
| | | USD '000 | EUR '000 | USD '000 | EUR '000 | USD '000 | EUR '000 | USD '000 | EUR '000 |
| Financial liabilities for which fair values are disclosed: | | | | | | | | | |
| Assets measured at fair value: | | | | | | | | | |
| Financial instrumentss (Note 24) | 31 December 2019 | - | - | - | - | - | - | - | - |
| Liabilities measured at fair value: | | | | | | | | | |
| Derivative financial instruments (Note 24) | 31 December 2019 | 50 | 43 | - | - | 50 | 43 | - | - |
| Liabilities for which fair value is disclosed: | | | | | | | | | |
| Financial instrumentss (Note 24) | 31 December 2019 | 7 | 6 | - | - | - | - | - | - |
| Obligations under finance lease (Note 22) | 31 December 2019 | - | - | - | - | - | - | - | - |
| Bank loans and credit line (Note 22) | 31 December 2019 | 181,280 | 161,368 | - | - | 181,280 | 161,368 | - | - |

Fair value measurement hierarchy as at 31 December 2018

| | Date of valuation | Total | | Level 1 | | Fair value measurement using | | | |
|---|-------------------|-------------|-------------|-------------|-------------|------------------------------|-------------|-------------|-------------|
| | | | | | | Level 2 | | Level 3 | |
| | | USD '000 | EUR '000 | USD '000 | EUR '000 | USD '000 | EUR '000 | USD '000 | EUR '000 |
| Assets measured at fair value: | | | | | | | | | |
| Financial instrumentss (Note 25) | 31 December 2018 | 605 | 528 | - | - | - | - | 605 | 528 |
| Liabilities measured at fair value: | | | | | | | | | |
| Derivative financial instruments (Note 25) | 31 December 2018 | 50 | 43 | - | - | 50 | 43 | - | - |
| Liabilities for which fair value is disclosed: | | | | | | | | | |
| Bonds (Note 22) | 31 December 2018 | - | - | - | - | - | - | - | - |
| Obligations under finance lease (Note 22) | 31 December 2018 | 76 | 66 | - | - | 76 | 66 | - | - |
| Bank loans and credit line (Note 22) | 31 December 2018 | 110,552 | 96,553 | - | - | 110,552 | 96,553 | - | - |

There is no transfer between L1 and L2 during 2019.

27 Related party disclosures

There are no ultimate controlling parties of the Group. The shareholders of the Group are as follows:

| | 31.12.2019. | | 31.12.2018. | |
|--|-------------|-------|-------------|-------|
| | USD | EUR | USD | EUR |
| Ashington Business Inc. Ltd, domiciled in the United Kingdom | 23.51 | 19.35 | 23.51 | 19.35 |
| Solsbury Inventions Ltd, domiciled in the United Kingdom | 23.42 | 19.28 | 23.42 | 19.28 |
| Amber Trust II S.C.A., domiciled in Luxembourg* | 0 | 17.29 | 0 | 17.29 |
| Eurotrail SIA, domiciled in Latvia | 13.03 | 10.73 | 13.03 | 10.73 |
| Whitebarn SIA, domiciled in Latvia | 13.03 | 10.73 | 13.03 | 10.73 |
| KRM Serviss, SIA, domiciled in Latvia | 12.74 | 10.49 | 12.74 | 10.49 |
| Solo investīcijas, SIA, domiciled in Latvia | 12.12 | 9.98 | 12.12 | 9.98 |

Amber Trust II S.C.A. withdrew from share capital of ELKO Grupa AS on December 2019 and shares were shared among other owners by issuing B category shares.

On January 2020 B category shares were converted to A category shares.

27 Related party disclosures (continued)

27.1 Key management compensation

The members of the Council do not receive any remuneration. The members of the Board of Directors were entitled to a remuneration of USD 311 thousand or EUR 278 thousand (2018: USD 545 thousand or EUR 462 thousand).

| | 2019 USD '000 | 2018 USD '000 | 2019 EUR '000 | 2018 EUR '000 |
|----------------------------------|------------------|------------------|------------------|------------------|
| The Board members' remuneration: | | | | |
| - salary expenses | 251 | 439 | 224 | 372 |
| - social insurance | 60 | 106 | 54 | 90 |
| | 311 | 545 | 278 | 462 |

27.2 Transactions with related parties

There were no sales to related parties in any of the years presented. There were no guarantees issued to related parties at any statement of financial position date presented.

As of 31 December 2019 there is outstanding loan received from shareholders in amount of USD 33,430 thousand (EUR 29,758 thousand) (see note 22)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

28 Commitments and contingencies

All assets of the Group except as noted in Note 17 Inventories have been pledged as security in favour of the banks.

29 Events after 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 Swedbak 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 condition

Starting from late 2019 the world is facing a global health emergency because of Covid-19 virus. First it paralyzed China, causing close up of many businesses. Now the virus has spread in Europe and other parts of the world. Because of its fast spread, many countries have closed their borders for travelling (except forcargo), imposed quarantine on their citizens, and banned all public gatherings and shows of the entertainment industry. Some countries, introduced lockdown.

Recently China announced, that spreading of the virus had substantially dropped and business activities were resumed in the country. At the same time, Europe still peaks the virus spreading with the number of new cases sharply growing every day.

29. Events after the reporting period (continued)

The situation described above has a negative effect on worldwide economy, as many businesses have to close or suspend their operations due to no demand and, in order to cut expenses, companies are collectively laying off their employees.

ELKO Group is operating in more than 13 countries with most of the supply coming from China, and it might be affected by the current health crisis as well. To mitigate possible negative impact on Group's business, the management has implemented several preventive measures and additional controls over the operations.

Despite the fact that most of the debtors are insured, the Group has decreased credit limits for its debtors in order to decrease credit risk. Debtors are monitored more frequently, prepayment conditions are imposed on a greater number of clients and a stricter new client acceptance policy has been implemented. In order to finance the working capital, on 10 March 2020 the Group signed a factoring agreement with Swedbank Lizings SIA with a total limit of USD 10 936 544 (EUR 9 919 178). Currently the Group does not identify any significant default cases. Moreover, debtor days show a decrease by 10 days in comparison to the same period in 2019.

Contrary to the overall slowdown in economy, ELKO Group is still experiencing positive dynamics in sales. This is explained by several facts. First, the decreased supply from China lead to 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. According to the operational data, ELKO Group sales and gross margin increased by 24% and 36% respectively as at the end of the 1st quarter in comparison to the same period of 2019. As to the sales, the Group has achieved its quarterly budgeted figure.

Due to the high demand, ELKO Group has managed to decrease its old stock and, consequently, the stock days by 9 days as well.

The Group has also assessed the risk of supply shortage, and based on the fact that China has started to resume its normal business operations the Group believes the impact on it's operations to be short-term, and therefore, not significant. Currently, the Group is rearranging its operations in a way as to have a more flexible stock movement within the Group, so as to satisfy as many orders as possible.

Group's management consider, that the Group will be able to overcome emergency discribed above. However, this conclusion is based on information available at the moment of approval of this financial statement and the effect of future events might differ from the valuation of the management.

There are no subsequent events except for the ones mentioned in financial statements since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2019.

Egons Mednis
Chairman of the Board

Olga Ivanova
Chief accountant

17 April 2020

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ELKO Grupa AS

Opinion

We have audited the accompanying consolidated financial statements of ELKO Grupa AS and its subsidiaries (the Group) set out on pages 8 to 62 of the accompanying consolidated annual report, which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year that ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information all expressed in US dollars.

In our opinion, the accompanying consolidated financial statements expressed in US dollars give a true and fair view of the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year that ended in accordance with International Financial Reporting Standards as adopted by the European Union. In our opinion, the financial statements expressed in euro have been properly translated on the basis described in Note 2.2 *Foreign currency translation*.

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 Consolidated Financial Statements* section of our report. We have also reviewed the translation of these statements into euro on the basis described in Note 2.2 *Foreign currency translation*. We are independent of the Group 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 consolidated 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 consolidated Annual Report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report,

but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

- the information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation of the consolidated 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 consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

ERNST & YOUNG BALTIC SIA
Licence No. 17



Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153

Riga, 17 April 2020