Environmental, Social and Governance Report 2022

ELKO
GROW SMARTER

www.elkogroup.com

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The ESG report for the reporting year 2022 was prepared by ELKO Group. This is the second edition of such a report. The report discloses the achievements, principles, and initiatives regarding environmental, social, and governance matters of ELKO Group.

Notably, ELKO Group is setting 2022 as a base year for further improvement measurement, ESG initiative development and Greenhouse gas monitoring.

Scope

The initial ESG report for ELKO Group calculations looked only at ELKO HQ and BALTIC divisions; the scope for the second report has been notably expanded and also includes ELKO Group subsidiaries in Sweden, Slovenia, Slovakia and Romania. ELKO Ukraine has been excluded due to limited data availability. More information regarding the coverage of this ESG report can be seen in Appendix 1.

Reporting principles

This report refers to Global Reporting Initiative (GRI) Standards, UN Sustainable Development Goals (SDGs), and the Nasdaq ESG Reporting Guide. ELKO Group is determined to continuously improve not only our ESG achievements and initiatives but also our reporting capacity.

The Framework for Scope 1, Scope 2 and Scope 3 emissions calculations were based on Greenhouse Gas Protocol; the emission factors for electricity are based on the Association of Issuing Bodies (AIB) 2022 for fuel and heating on Emission Factors for Greenhouse Gas Inventories 2022 (Environmental Protection Agency).

According to EU Taxonomy sustainable activities, ELKO Group currently does not qualify for the Taxonomy Regulation compliance.

Letter from the CEO

We published our first ESG Report about a year ago, and looking back at the year that has passed - what a journey it has been! The world around us has been extremely turbulent, both economically and especially geopolitically, and given ELKO Group's geographical coverage, it has been an ultimate test to demonstrate resiliency and ability to navigate stormy waters. We are sincerely glad that our colleagues in Ukraine are well and the business has resumed full operations despite the war in the country and have humbly offered our help and assistance, where possible, to accommodate some of our colleagues and their families across ELKO Group.

While the first report was rather a testament to our awareness about ESG aspects in our company as such, we have gone a long way through the year while increasing our scope, in-depth understanding and targeted initiatives to improve across every aspect of ESG while continuing to face everyday challenges in the business.

This year we have almost all ELKO Group companies covered in the reporting scope, which has proved to be an internal challenge in terms of data gathering, but has also highlighted market differences in terms of acceptance of ESG importance and industry readiness to providing necessary data across the supply chain. That has also provided us with qualitative insights for further development and necessary reporting improvements across our companies.

We have developed our own internal scoring system for our vendors, them being the largest environmental footprint generators in our industry, to make an awareness of our product portfolio sustainability, and we are satisfied to conclude that most of our revenue is being sourced via world leading suppliers that have taken ESG matters at heart and are working hard to achieve their goals to reach climate neutrality. We have also created a supplier code of conduct to make sure that we are in perfect sync with our vendors regarding the aspects of conducting business that we perceive as critical for business sustainability.

Increasing number of vendors are starting to provide circular economy related initiatives, which is a welcome development and we are excited to engage and pass those programs through our channel in the markets.

Geopolitical instability has significantly complicated the international trade environment and we have invested to greatly increase our compliance capabilities to make sure that we are able to fully comply with ever-increasing number of requirements and restrictions.

Awareness certainly brings challenges with it, as we discovered in some of the data, for example, gender equality in company's management, but we accept current situation and pay increasing attention to issues highlighted, so we would improve the situation going forward.

I am certain that initiatives for the future emphasized in the report will help ELKO Group to become more environment friendly, socially responsible and better governed. The path towards sustainability is a marathon not a sprint, and I am delighted to say that we are on the right track!

Svens Dinsdorfs
The CEO of ELKO Group

Key 2022 non-financial indicators (group)

350 manufacturers

10 000 customers

1 100 employees

- 12 countries
- 15 offices
- 2 HUBs

Stockholm
Göteborg
Malmö
Tallinn
Riga
Kaunas
Amsterdam
Wrocław
Zlín
Žilina
Banská Bystrica
Bratislava
Ljubljana
Kyiv
Bucharest
Almaty

Awards & rankings

The Best Retail Partner in the Baltics
The Most Innovative Distributor in the Baltics
The Best Value-Added Distributor in the Baltics
The Best Cloud Partner in the Baltics
by Context, ChannelWatch 2022

Best Investor Relations on First North Bond List
by Nasdaq Baltic Awards, 2023

The biggest concern in Latvia
by db.lv TOP 500 companies in Latvia, 2022

177th position in the TOP 500 largest companies in CEE
by Coface, 2022

UN sustainable development goals

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

At ELKO Group we have acknowledged the importance of working towards helping to achieve these goals and have identified several areas where our operations and sustainability priorities align with the aforementioned SDGs.

3 GOOD HEALTH AND WELL-BEING

1. Health insurance to all our employees which also includes mental health coverage.
2. Active promotion of healthy lifestyle by organizing internal events related to such promotion.
3. Regular blood donation and vaccination drives at the workplace.

8 DECENT WORK AND ECONOMIC GROWTH

1. Provide fair wages and promote safe and secure working environments for all employees.
2. Operations in 12 countries where we promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

1. Perpetually introducing newest solutions and products that can help to improve IT infrastructure.
2. Introduce the newest technologies and solutions in our supply chain for a more sustainable and efficient group operations.

13 CLIMATE ACTION

1. Starting to measure our carbon footprint and working on policy development to reduce it.
2. Continuously improve our product portfolio by introducing eco-friendlier solutions.
3. Introduce new services and improve operating methods to reduce waste generation.
4. We play closely monitor the CSR activities of our suppliers, especially in the environmental department, thus helping our product portfolio to become more sustainable.

GRI 300 EMISSIONS

GRI 305-1 Scope 1

As a service provider and not a production company, the scope 1 emissions for the group comprise only a small fracture of total emissions.

The 2022 report looks at emissions from company owned and leased cars and includes the travel data for 2022; emission factors for the fuel is based on the Emission Factors for Greenhouse Gas Inventories 2022 (Environmental Protection Agency).

Scope 1 Emissions for 2022:

0.14 tCO2e per mUSD in turnover.

GRI 305-2 Scope 2

Scope 2 emissions include the measurements from purchased or acquired electricity, steam, heat and cooling. The emission factors for electricity are based on Association of Issuing Bodies (AIB) 2022, for fuel and heating on Emission Factors for Greenhouse Gas Inventories 2022 (Environmental Protection Agency).

Scope 2 Emissions for 2022:

0.63 tCO2e per mUSD in turnover.

For a detailed view regarding the share of energy (both electricity and heating) coming from renewable sources, please see Appendix 2. Compared to the EU average statistics according to the latest EUROSTAT data, the countries where ELKO Group subsidiaries are located all but Slovakia demonstrate above average share of energy coming from renewable sources.

GRI 305-3 Scope 3

ELKO Group is continuously improving the calculations for Scope 3 Emissions. We expect that this section of GHG emissions will comprise the largest part of the Group's total GHG emissions; thus, data quality and scope improvements are of an essence.

Scope 3 Emissions for 2022:

0.65 tCO2e per mUSD in turnover.

Data availability for each of our offices varies, and the current differences are rather notable. For more detail regarding Scope 3 emission data coverage, see Appendix 1.

GRI 308 SUPPLY CHAIN RESPONSIBILITY

Supplier Code of Conduct

Please see the section GRI 308-2 under the Governance section.

Internal vendor scoring

In 2022 ELKO Group developed and internal vendor scoring system where we looked at several aspects of ESG matters available in the search engine. Each matter was assigned a value score. Please see below some of the aspects that were value scores.

Main aspects as value scores

- Presence of CSR report
- Guidelines used in the report (GRI, Other, UN Development Goals)
- Major Environmental Goals defined
- RBA Membership status
- Responsible Sourcing and Conflict Minerals Policy

Then the vendors were assigned a score from A (includes all major ESG aspects and only small missing issues might occur) to D (no clear ESG policy and no future outlook on the matter has been outlined). **Vendors comprising 94% of the turnover were screened, with 73% of them receiving a score A.**

73%
Score A

The screening is performed annually with a particular focus on vendor scoring C and D scores. The goal is to continuously improve the share of vendor portfolio receiving the score A.

Procurement module

In 2022 we introduced Procurement Module. Being a part of our ERP, it is a tool which allows to significantly increase the transparency and efficiency of our core business process – ordering goods from suppliers. The module notably improves the accuracy of forecasting and planning thus allowing for much better resource usage. By standardizing processes and automating tasks the efficiency of goods procurement process is considerably improved. By the end of 2022 the module was introduced in all operating countries of the Group.

In 2023 it is expected further develop the tool with main focus of finetuning user experiencing and maximizing value from data insights.

Customer service development & Automation

In 2022 the Baltic division introduced B2C delivery operation and thus reduced the number of the players included in the overall supply chain by developing integration service via API and/or CSV -where customers do not make their own inventories, but instead have virtual integrations with ELKO stock through CSV or advanced API integrations with real-time data. Thus, we are helping to provide the retailers the service of direct B2C deliveries to parcel stations. Currently the service is available to the ELKO Baltic customers, but we are working on expanding the reach of the activity across the whole group.
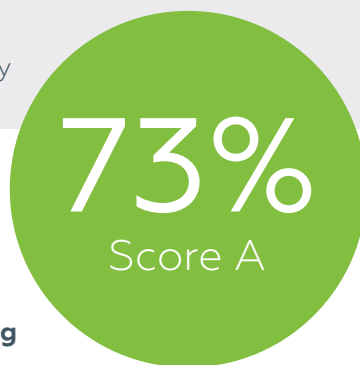
GRI 306-2 WASTE MANAGEMENT

ELKO Group in all its offices outsources its waste management; the quality, environmental, occupational safety and energy management systems of the companies comply with the international ISO standards. The waste management is organized into three separate pillars: general waste, recyclable waste (mainly regarding packaging in our warehouses) and electric and electronic waste. As an example, our Slovakian office recycles over 90% of their generated waste with over 60% of that being paper or cardboard. ELKO Sweden recycled more than 24tons of generated waste. ELKO Romania has introduced an initiative that allows to reuse packaging materials thus considerably reducing not only cardboard usage but also total waste generation.

GRI 301-1 PRODUCT AND PACKAGING MATERIALS

The main materials we use for our product packaging are light film, black film and cardboard boxes. We collect direct measurements of materials used in kg.

In 2022:

0.005 kg of packaging materials per item sold

62.9 kg of packaging materials per mUSD of turnover

GRI 403 HEALTH & SAFETY

Health insurance

As a benefit, ELKO has been providing health insurance for its employees that cover a vast amount of expenses, including dental, diagnostic, ER, ambulatory rehabilitation, surgical and physiotherapy etc. In addition, starting from 2021, we have included in our insurance cover relating to our employees' mental health. We are fully committed to taking preventive measures that concern not only the physical health of our employees but also their mental standing.

Notably, ELKO Group also provides world-wide accident insurance for our employees.

Other health benefits

ELKO continuously is becoming increasingly aware of the usefulness of employee wellness programs and thus we are trying to cultivate a culture of wellness in the workplace. For several years, we have introduced health weeks in the workplace. The initiative includes lectures on healthy eating, the importance of exercise as well as blood donation and vaccination drives at the workplace.

In addition, ELKO provides on-site free of charge gym access to all employees thus promoting easier path towards physical health improvement.

Safety

In order to provide safe working conditions for all ELKO Group employees, we have developed a health and safety management system for our office as well as warehouse employees, which complies with labour protection laws. During employees' first week of employment, all employees are introduced to job safety and fire safety instructions, Furthermore, annually, we hold safety training and all employees are required to sign a confirmation that they have gone through trainings. Fire safety systems are checked and maintained by a certified external company on a monthly basis, and a representative of the State Fire and Rescue Service checks all of fire safety systems annually. Additionally, at our warehouses, work environment risk assessment is performed regularly and we provide accident insurance for our employees

Employee Satisfaction

In 2022 ELKO Group continued to monitor the overall satisfaction of our employees. Using bi-annual surveying, the group monitors employee well-being and overall satisfaction with their working responsibilities, environment and general peace of mind.

The survey is conducted by each office separately and covers a large spectrum of subjects including (but not limited to) productivity, stress management, management evaluation, job security, working environment safety measures, internal communication levels as well as clarity of long-term vision.

Over the past years, ELKO has worked on improving their employee satisfaction and here are some of the 2022 survey highlights from various offices:

93% are satisfied with the support from their direct manager	**90%** are satisfied with the working-from-home policy
Work-Life balance index improved +6 p.p. from 81% satisfaction in 2021 to 87%	**95%** are satisfied with the direct manager's involvement in problem-solving

GRI 404 TRAINING, EDUCATION AND SOCIAL PROGRAMS

Work Management Improvement Program

In 2022 our HR department offered several interesting and useful education programs to the employees. The programs were targeted towards the improvement of every day work task management, increased productivity and improved efficiency. Please see short descriptions of some of the programs below.

Career Management

Several short modules with the spotlight on the main pillars of career advancement. The course included such topics as healthy working relationships, how to ask uncomfortable questions such as a raise, the best ways to change jobs etc.

Time Management

Like the previous course, the following also consists of several short module training sessions. The importance of concentration, goal setting, scheduling and prioritization are looked at this course as well as the fundamentals of time management and how to overcome its challenges.

Stress Management

This course in today's working environment is especially useful. Burnout, anxiety, stress are only some of the mental problems employers and employees are affected by every day. In order to indicate such problems and find solutions, the course introduces strategies to relieve stress, how to recover from burnout and learn about the relationship between pressure and performance.

Effective Communication

Mainly looks at the topic of effective communication between colleagues; focuses on the improvement of communication skills by looking at the subject matter of uncomfortable discussions, peaceful communication, emotion management and meeting leadership.

Learning Week

In 2022 ELKO Romania developed a training program called "Learning Week"; the program is available to all ELKO Romania employees. It includes internal and external trainings and organized by the managers of each department. The program addresses topics dedicated towards the specifics of job type and job responsibilities and it occurs twice a year.

Internal Department Communication Initiative

This is a social initiative in order to improve the communal understanding of how the actual organisation operates and who does what and why. It is a monthly online meeting where the head of each department (or sub-department) shortly describes the main roles and responsibilities of their respective employees.

Additionally, the initiative includes a quiz on the employees of each department; notably the questions are mainly targeted towards interesting skills, anecdotes or hobbies of the department members rather than specifics of work responsibilities and processes.

Team Building Events

In addition to training and education programs, ELKO Group regularly organises social team-building events. These events usually combine such components as work-related training, sporting events, socializing and entertainment, which together help us to build a better and stronger team, and provide a sense of community not to mention to improve our knowledge, expertise and group spirit.

eGrow

eGrow is our own in-house LMS (Learning Management System). eGrow is used to make available interactive e-learning courses to our employees, as well as manage their learning progress. In a modern work environment, especially when employees work remotely at least for part of the working week, and for an international company like ELKO Group with employees in many different countries, it is important to have an opportunity to train them outside of classical in-person training sessions or workshops and to do it in an engaging and interactive way to match what people are used to consuming outside the working environment. In addition to having the opportunity to study from wherever they are, employees can also always go back to the course if they need to repeat something.

Most of our courses on eGrow are made in-house by or in collaboration with internal SMEs (Subject Matter Experts). Most of the courses are optional to complete, however some trainings are mandatory, for example employee onboarding, basic GDPR, cybersecurity etc. In 2022 some mandatory AML courses were introduced, as well as optional communication and effective team management courses.

The completion tracking options on eGrow allow us to have tracking of whether the compliance-related trainings have been completed, and to extract reports with statistics, as necessary. We also have externally made courses on commonly used software programs in order to improve our employees digital skills (e.g. Microsoft Office, Jira) on our eGrow platform that are available to employees who'd like to deepen their knowledge and acquire new and useful skills for their everyday work.

Ukraine Social Program

In 2022 the main focus of ELKO Group was on building a response to the war in Ukraine, with a special focus on providing aid to our Ukrainian colleagues. The initiative included providing shelter to ELKO Ukraine colleagues and their families, aiding with documentation processing and financial aid applications etc. To enable fast and timely information flow, a dedicated Telegram channel was created.

The shareholders of ELKO Group unanimously donated 100 000 EUR to support the people in Ukraine. The donation was made through the Latvian charity organisation ziedot.lv, and the funds are distributed in cooperation with Ukrainian organisations to where they are most required. Furthermore, our Sweden subsidiary also donated 50 000 EUR to help our Ukrainian colleagues.

GRI 400 RESPECT OF HUMAN RIGHTS

As ELKO we recognize the importance of preserving human rights in our value chain. We believe in the right to self-determination, liberty, due process of law, freedom of movement, thought, religion, assembly and association.

The policy of labor practice sets forth minimum standards for working time and working conditions and provides for observance of all of the core standards of the International Labor Organization including other applicable Conventions.

The policy provides a pledge by the Company to observe these standards and to require its contractors, subcontractors and suppliers to observe these standards. It also establishes ELKO Group's general responsibilities concerning human rights, health management, work safety, career management, employees' rights etc. Many of the previously mentioned areas are also covered in our supplier code of conduct.

GRI 405-1 Diversity & Equal Opportunity

ELKO Group is continuously working on creating a supporting as well as an open workplace that is not only inclusive but also cultivates diversity. As an international group with offices in 12 countries, our work environment inheres different nationalities, cultures and religions.well as in everyday work situations.

Gender Diversity

	Female	Male
HQ	48%	52%
Baltic Division	31%	69%
Group level executives	33%	67%
Romania	47%	53%
Slovakia	44%	56%

Renumeration	Female vs. Male remuneration
01 Junior Specialists /Physical Workers	-17%
02 Specialists	-5%
03 Senior Specialists	-3%
04 First Level Management/Mid-Management	-14%
05 Top Management	1%
06 Executives	-16%
07 Board	n/a

01 - Junior specialists are employees who carry out an organization's administrative/technical tasks and who do not have a supervisory or managerial responsibility. Physical workers are semi-skilled or unskilled employees whose work does not require specific professional education. **The discrepancy in remuneration in this employee segment is mainly attributed to the peculiarities of the market segment they represent. Cleaning staff are mostly women and physical warehouse workers are male. While cleaning staff has a fixed salary, warehouse workers have incentive driven bonuses.**

02 Specialists - both sales and non-sales professionals with no managerial responsibility, although they may provide mentoring, coaching or supervision to less experienced staff. Report to a manager. Most positions in this group are responsible for professional and technical everyday work in an organization/department.

03 Senior specialists - both sales and non-sales professionals with no managerial responsibility, although they may provide mentoring, coaching or supervision to less experienced staff. Senior positions may take on team leader roles that are based on profound expertise rather than on people management.

04 First Level Management / Mid-Management - employees who focus on tactical vision and/or operational activities within a specific area. Report to an executive or head of an organization. Have managerial responsibility for a

department or a team. Coordinate and organize activities of a separate unit or service within an organization. Establish operational and administrative procedures, formulate policies relevant to their areas, and organize, lead and direct others to achieve their goals. **The discrepancy in remuneration in this employee segment is mainly attributed to the higher salary index to IT employees. Thus, IT employees in similar roles and with similar responsibilities when compared to other department employees have higher remuneration. And IT is an industry which is still highly male dominated. If we exclude IT specialists in this division, the pay gap reduces to 9%.**

05 Top Management - employees who ensure operational activities across multiple functions or sub-functions. Determine policy and direction of a functional area and direct its activities – usually through lower level managers. Includes function managers / sub-function managers.

06 Executives - employees who provide strategic vision. Determine policy and direction of a functional area and direct its activities through other managers. Includes the top-level function managers. **The reason for the pay gap in this division is closely connected to the reasoning in First Level Management division. When IT Executives are removed from the calculations, the pay gap is reduced to 2%.**

07 Board - employees who provide strategic vision across multiple functions. Determine policy and direction of the organization. Includes the head of an organization and the other board members. **ELKO Group has no female Board Members.**

GRI 406 Freedom from Discrimination

At ELKO, we value all employees and job candidates as unique individuals, and we welcome the variety of experiences they bring to our company. As such, we have a strict non-discrimination policy established within our hiring process as well as everyday work situations. We believe everyone should be treated equally regardless of race, sex, gender identification, sexual orientation, national origin, native language, religion, age, disability, marital status, citizenship, genetic information, pregnancy, or any other characteristic protected by law.

GRI 408 Child Labor

Our internal policies and workplace practices are fully compliant with national and international labor laws that strictly prohibit child and forced labor.

GRI 2-9 General Governance

For the General governance, ELKO Group has incorporated Articles of Association as its main framework. The document serves as an essential supporting framework of rules and practices by which the board ensures accountability, fairness and transparency in both how the company runs and how it communicates with its stakeholders.

Management Board

The Management Board consists of four members elected by the Supervisory Board of the joint-stock company for three years. The chairman of the Management Board, who at the same time is the president of the Company, manages the work of the Management Board. The Management Board shall adopt decisions on all issues connected with the activity of the Company, except those which are in the competence of the General Meeting or the Supervisory Board. In accordance with provisions of the Articles of Association, separate decisions of the Management Board require written consent of the Supervisory Board.

Supervisory Board

The Supervisory Board of the Company consists of four members, who are elected for three years. The Supervisory Board shall approve annual and quarter budgets of economic activity of the Company. Additionally, the written consent of the Supervisory Board is required for the decisions adopted by the Management Board on issues regarding large excesses of annual budget, approval of large loans or credit, any acquisition or alienation of the property rights and other significant measures that can notably affect the general affairs of the company.

The management of the business and the conduct of the affairs of the Company are vested in the directors of departments.

General Meeting

The General meeting is entitled to adopt decisions on issues listed below if at least 80% of the paid share capital of the joint-stock company are participating, besides the majority of votes which makes not less than 80% of the total number of votes of all shareholders with the right to vote is required. The main decision-making areas for the General Meeting cover amendments of the Articles of Association of the Company, changes in the share capital, reorganization and emission and conversion of the Company's securities.

Russia Business Activities

On April 25, 2022 Akciju Sabiedrība "ELKO Grupa" sold 100% of shares of its two Russian subsidiaries - OOO "ЭЛКО РУС" and OOO "Торговый дом АБСОЛЮТ" as part of Group's decision to divest fully its business activities in Russia. Transition period for separation of business process was designed and implemented in several stages, and fully completed by the end of 2022.

As a result of this divestment the overall risk profile of ELKO Group as well as capitalization of the balance sheet have significantly improved.
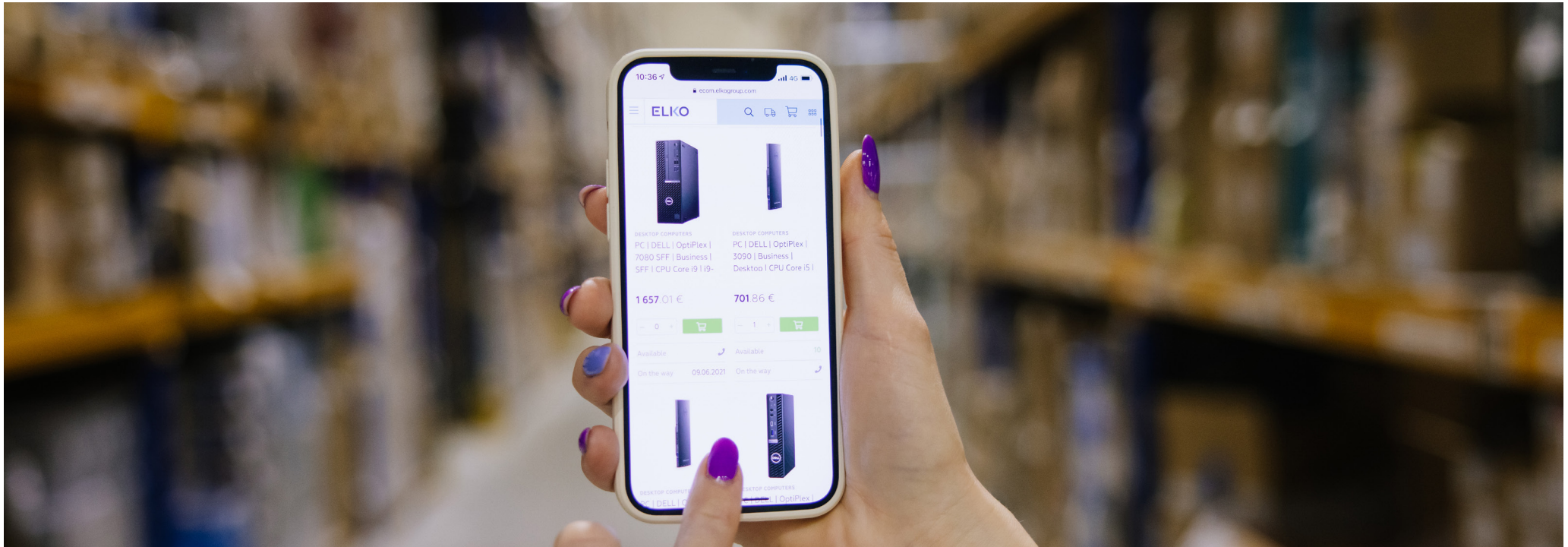
GRI 308 Supplier Code of Conduct

By the end of 2022 the group has developed the Supplier Code of Conduct aimed at vendors and other partners in the supply chain. ELKO Group itself is and expects its cooperation partners to be, committed to responsible business and adhere to a number of international declarations, conventions and guidelines on human rights, labor rights and conditions, environmental responsibility and anti-corruption.

The document looks at labor, health and safety, environment, ethics and anti-bribery and corruption standards that are expected to be upheld by our supply chain partners.

GRI 418 Data Privacy (including GDPR)

ELKO Group has always approached data privacy very strongly; we have zero tolerance toward non-compliance with associated data privacy and security guidelines, and we have developed respective measures to do so. ELKO Group has developed procedures that protect the personal information of individuals and employed a GDPR officer to oversee the compliance of the procedures. We also have assigned Data guardians in each department, who have passed the respective course on data privacy, providing a deeper knowledge of the issue.

In order to monitor the competence and training of our Data guardians, ELKO has developed 2 level GDPR e-learning courses; the completion rate is around 90%.

Client Satisfaction

Over the last five years, ELKO Group has been monitoring client satisfaction using the Net Promoter Score methodology. The NPS Customer satisfaction survey process has an established methodology for gathering responses from customers, through to feedback presentation to the group's management and follow-up procedures. The survey covers the areas regarding product range, delivery service, price levels, e-commerce functions and the professionalism and responsiveness of our employees. The survey is carried out on the group level. The resulting initiatives and their implementation are overseen by the CEO.

Compared to 2021, the overall NPS score increased by three points (from 57 to 60) with a 1% decrease in response rate. Notably 68% of our clients on the group level believe that the service level of ELKO has improved over the past 12 months (60% in 2021).

Best performing service segments:

- Delivery Service (9.2)
- Sales Manager responsiveness (9.1)
- Sales Manager professionalism (9.1)

57
NPS score
2021

60
NPS score
2022
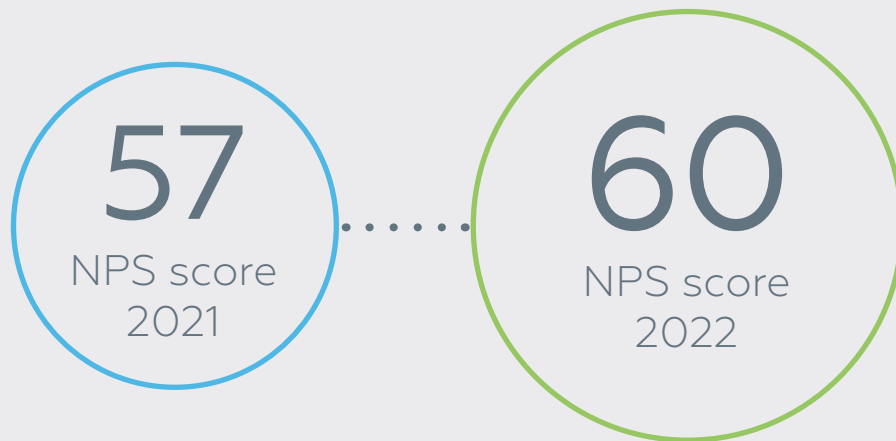
GRI 205 ANTI-CORRUPTION AND BRIBERY

Code of Conduct

ELKO Group has a long-established employee Code of Conduct; it includes such measures as the employer-employee relationship, which protects the business and informs the employees of the company's expectations. It serves as a central guide and reference for employees to support day-to-day decision-making.

Furthermore, ELKO Group has clearly defined organization's mission, values and principles, which links them with standards of professional conduct.

Anti-Corruption and Bribery measures

To tackle the possible risks regarding corruption and bribery, ELKO has adopted an anti-bribery and corruption procedure, which defines the mandatory anti-bribery and corruption requirements ELKO employees must comply with. Furthermore, it clearly describes the procedure for reporting actual or suspected wrongdoing and following liabilities in case a breach has been detected. ELKO Group has a definite and unequivocal stance against bribery and corruption and the subsequent negative economic and social effects such actions can provoke.

AML & Sanction Compliance

Since ELKO Group is a multi-national company which carries operations across the globe, we have acknowledged the increased possibility of financial and accommodating reputational risks. As a result, with the help of external consultants, we have developed AML & Sanction compliance policy which is fully compliant with local and international legislation. The policy helps us to ensure compliance with the regulations and determine the partner's risk level by making a

risk assessment during the vendor and customer onboarding process. The policy also provides the details of our approach to preventing money laundering, ensuring sanction and export restriction compliance and describes our procedures for identifying and verifying our partners, their due diligence measures and monitoring checks.

Since the sale of dual-use products in our portfolio is a possibility and our market coverage may include several countries on the sanctions list, within the framework of the previously mentioned AML & Sanction compliance policy, we have established extra procedures to comply with restrictions on dual-use product trade.

The main responsibilities of governing and managing AML 7 sanction compliance initiatives, procedures and compliance fall under the tasks of the compliance officers.

Regarding compliance with the sanctions pack addressed towards sales in Russia, please see the response of ELKO Group in the Russia Business Activities Section.

AML Committee

ELKO Group has introduced a new AML & Sanction compliance procedure. The procedure includes the introduction of the AML Committee and IT system improvements regarding AML-associated topics.

AML Committee is comprised off 3 members, i.e. CEO, CFO and CCO, who by a majority of votes are deciding on all increased risk AML & Sanction compliance cases according to general principles set by AML & Sanction compliance procedure.

GRI 2-24 RISK MANAGEMENT

Risk management framework

In the current business environment, business risks are a more prevalent issue than ever. To ensure that we can effectively manage them and remain a stable and accountable partner to all stakeholders, in the second half of 2022, we have audited our risks and developed the ELKO Risk Management Framework, where we have mapped all identifiable risks in a matrix based on two dimensions that we have evaluated for each of the risks – its likelihood and potential impact. For each of the risks, we have a risk owner who is responsible for monitoring and managing it, and for each of the risks we have clearly laid out and put in place a risk management strategy. Each quarter the risk matrix is reviewed and main risks to keep an eye on and manage for the quarter are selected by the Management team. Once a year we review the Framework and risks included in it to make sure it is up-to-date with the current situation.

Financial Risk

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.

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 USD.

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 risks arise from credit exposure to outstanding trade receivables. The Company has implemented procedures and control mechanisms to manage credit risks. Credit risk is partly minimized through credit-risk insurance, but mainly the risk is minimized by internally developed 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 Company determines the number of inventories based on expected future demand and market saturation. Any changes in demand and/or rapid obsolescence of products or technological changes will result in excess stock and the accumulation of obsolete items. The Company makes centralized plans for the purchase and sale of products. Furthermore, upgrading the procedure for placing orders has helped decrease inventory days. Weekly inventory analysis minimizes 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 a sufficient number of committed credit facilities. In the future, the Company's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

Security Risk

IT Security

ELKO Group continually concern themselves with data security on two fronts, customer data theft and corporate data theft. ELKO Group run annual security audits identifying possible vulnerabilities and, based on results, decides on actions. Some of the IT Security improvement initiatives please see below:

● Revision and improvement of physical security systems, giving priority attention to the timely detection of problems and their timely elimination.
● Review and improvement of physical security systems processes.
● Development and implementation of multi-factor authorization.
● Anti-virus migration to a more modern EDR (Endpoint Detection and Response) solution with the possibility of in-depth incident investigation.
● Review and improvement of IT Security processes.

Reputation Risk

Reputation risk is covered by ELKO Group's Crisis Management Policy which aims to ensure consistency in the approach of handling communication across ELKO Group. The Policy defines crisis situations as well as the principles for crisis management. Furthermore, it illustrates reactions and communication flowchart which helps to set a proper course communication between ELKO departments in case of a crisis.

The main responsibility to enforce the policy lies in The Head of Marketing and/or Public Relations in each Sales Office.

Initiatives framework

	Initiative	Objective	Timeframe
Environment	SBT	To pledge and join SBT initiative by setting specific goals. Science-based targets provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals.	2024
	Customer service and logistics	Drop-shipment service implementation.	Ongoing
	Customer service and automation	API integration development - automation shortens the time goods reach the end user, hence also the resources used in the process.	Ongoing
	Vendor management	Increase activity in circular economy initiatives provided by vendors.	Ongoing
	Supply Chain improvement	Supply Chain mapping and Routing optimization in order optimize and reduce Scope 3 emissions.	2023
	Scope 2 GHG reduction	Improve energy efficiency in the office and warehouse.	Ongoing
	Procurement	Onboard 3rd party data certifications. TCO etc.	2024
	Data quality and management	Improve data quality and versatility especially in the Scope 3 section. Introduce ESG data management system and software.	Ongoing
Social	HR Data	HR data warehouse development with the whole group as a scope.	2023
	Equality	Improve the equality average male/female ratio especially in the executive level. Renumeration equality improvement.	Ongoing
	Training and Education	Continuous development of employee education programs	Ongoing
Governance	Compliance	Continuous development of documents and procedures associated with the applicable rules of regulations.	Ongoing
	IT	Security improvements. Cybersecurity measures. Data Security initiatives.	Ongoing

Appendix 1: ESG Data Coverage Table

	Baltics	Romania	Slovakia	Slovenia	Sweden	Ukraine
Environment						
Scope 1						
Leasing	x	x	x	x	x	
Scope 2						
Electricity	x	x	x	x	x	
Heating	x	x	x	x	x	
Scope 3						
Business trips	x	x	x	x	x	
Upstream transport					x	
Downstream transport	**x (DPD)**				x	
Waste Management	x	x	x	x	x	
Product and Packaging materials	x	x		x	x	
Social						
Health and Safety	x	x	x	x	x	x
Training, Education and Social Programs	x	x	x	x	x	x
Respect for Human Rights	x	x	x	x	x	x
Governance						
Governance	x	x	x	x	x	x

Electricity. Share of energy from renewable sources in gross electricity consumption, 2004-2021 (%)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
EU	15.9	16.4	16.9	17.6	18.5	20.7	21.3	23.3	25.1	26.8	28.6	29.7	30.2	31.1	32.1	34.1	37.4	37.5
Czechia	3.7	3.8	4.1	4.6	5.2	6.4	7.5	10.6	11.7	12.8	13.9	14.1	13.6	13.7	13.7	14.0	14.8	14.5
Estonia	0.5	1.1	1.4	1.4	2.0	6.0	10.3	12.2	15.7	12.9	14.0	16.2	16.2	17.6	19.7	22.0	28.3	29.3
Latvia	46.0	43.0	40.4	38.6	38.7	41.9	42.1	44.7	44.9	48.7	51.0	52.2	51.3	54.4	53.5	53.4	53.4	51.4
Lithuania	3.6	3.8	4.0	4.7	4.9	5.9	7.4	9.0	10.9	13.1	13.7	15.5	16.9	18.3	18.4	18.8	20.2	21.3
Hungary	2.2	4.4	3.5	4.2	5.3	7.0	7.1	6.4	6.1	6.6	7.3	7.3	7.3	7.5	8.3	10.0	11.9	13.7
Poland	2.0	2.5	2.9	3.3	4.2	5.7	6.5	8.1	10.6	10.7	12.4	13.4	13.3	13.1	13.0	14.4	16.2	17.2
Romania	28.4	28.8	28.1	28.1	28.1	30.9	30.4	31.1	33.6	37.5	41.7	43.2	42.7	42.0	41.8	42.6	43.4	42.5
Slovenia	29.3	28.7	28.2	27.7	30.0	33.8	32.2	31.0	31.6	33.1	33.9	32.7	32.1	32.4	32.3	32.6	35.1	35.0
Slovakia	15.4	15.7	16.6	16.5	17.0	17.8	17.8	19.3	20.1	20.8	22.9	22.7	22.5	21.3	21.5	22.1	23.1	22.4
Sweden	51.2	50.9	51.8	53.2	53.7	58.3	55.8	59.6	59.8	61.7	63.2	65.7	64.9	65.9	66.2	71.2	74.5	75.7

Source: Eurostat (online data code: nrg_ind_ren)

Heating. Share of energy from renewable sources for heating and cooling, 2004-2021 (%)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
EU	11.7	12.4	13.2	14.8	15.3	16.8	17.0	17.4	18.6	19.0	19.9	20.3	20.4	20.8	21.6	22.4	23.0	22.9
Czechia	9.9	10.8	11.2	12.4	12.9	14.3	14.1	15.4	16.2	17.7	19.5	19.8	19.9	19.7	20.6	22.6	23.5	24.2
Estonia	33.4	32.4	30.8	33.0	36.0	42.0	43.2	44.5	43.2	43.1	44.9	50.0	51.8	52.2	53.7	52.2	58.8	61.3
Latvia	42.5	42.7	42.6	42.4	42.9	47.9	40.7	44.7	47.3	49.7	52.2	51.7	51.8	54.6	55.4	57.7	57.1	57.4
Lithuania	30.4	29.3	29.2	29.1	32.0	33.7	32.5	32.8	34.5	36.9	40.6	46.1	46.6	46.5	46.0	47.4	50.4	48.6
Hungary	6.4	9.9	11.4	13.5	12.0	17.0	18.1	20.0	23.3	23.7	21.3	21.3	21.0	19.9	18.2	18.2	17.7	17.9
Poland	10.2	10.2	10.2	10.5	10.8	11.6	11.8	13.2	13.5	14.3	14.2	14.8	14.9	14.8	21.5	22.0	22.1	21.0
Romania	17.3	17.9	17.6	19.5	23.2	26.4	27.2	24.3	25.7	26.2	26.7	25.9	26.9	26.6	25.4	25.7	25.3	24.5
Slovenia	22.8	26.4	24.4	29.3	27.5	28.9	29.5	31.8	33.1	35.1	34.6	36.2	35.6	34.6	32.3	32.1	32.1	35.2
Slovakia	5.1	5.0	4.5	6.2	6.1	8.2	7.9	9.3	8.8	7.9	8.9	10.8	9.9	9.8	10.6	19.7	19.4	19.5
Sweden	45.9	49.0	52.5	54.5	55.8	59.2	57.1	58.5	60.6	61.7	62.6	63.2	63.4	63.6	63.3	64.4	66.4	68.6

Source: Eurostat (online data code: nrg_ind_ren)

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