



AS LONGO Group

Registration No. 42103081417

LEI: 894500SNGNS9HL2FSI45

Terms of the Notes Issue

ISIN	LV0000860062
Type of security:	Senior secured Notes
Nominal:	EUR 1,000.00 (one thousand Euro)
Nominal value of the issue:	EUR 3,000,000.00 (three million Euro)
Annual Coupon Rate:	6 %
Maturity:	30 November 2024

These Terms of the Notes Issue are not a prospectus for the purposes of the Prospectus Regulation and no competent authority of any Member State has examined or approved the contents thereof. These Terms of the Notes Issue have been prepared on the basis all offers of the debt securities are issued by the Issuer according to the Terms of the Notes Issue will be made pursuant to an exemption from the obligation to publish a prospectus under the Prospectus Regulation.

The issue of the Notes is a private placement and there is no intention of the Issuer to list the Notes on a regulated market.

The Issuer is a company incorporated and existing under the Legal Acts of the Republic of Latvia and the Legal Acts allow for the Issuer to record the issue with the central securities depository of Latvia – Nasdaq CSD.

The decision of the Issuer to organize the issue of the Notes has been passed in compliance with the Legal Acts of the Republic of Latvia. The issue of the Notes, including the relationship between the Issuer and Potential Investors or any third parties, and their respective rights and duties attached to the Notes such as voting rights, dividends and corporate actions, is governed by the Legal Acts of the Republic of Latvia.

These Terms of the Notes Issue do not constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

MiFID II product governance - solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion: (i) the target market for the Notes is eligible counterparties, professional clients, and retail clients, each as defined in Directive

2014/65/EU; and (ii) all channels for distribution of the Notes to eligible counterparties, professional clients and respective retail clients are appropriate. Any person subsequently offering, selling or recommending the Notes should take into consideration the manufacturer's target market assessment. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Before deciding to purchase the Notes, Potential Investors should carefully review and consider the risk factors described herein. Should one or more of the risks materialize, this may have a material adverse effect on the cash flows, results of operations, and financial condition of the Issuer or the Guarantors. If any of these risks materialize, the market value of the Notes and the likelihood the Issuer will be in a position to fulfil its payment obligations under the Notes may decrease, in which case the Noteholders could lose all or part of their investments.

Any previous discussions or presentations provided to Potential Investors were solely for information purposes and the Notes are issued in accordance with these Terms of the Notes Issue. A Potential Investor should not make an investment decision relying solely upon the information provided in the Potential Investor presentation or otherwise.

Arranger:



26 November 2021

Table of Contents

1.	Risk Factors.....	11
2.	Party responsible for the Terms of the Notes Issue.....	22
3.	Information on Notes.....	23
4.	Special Conditions.....	37
5.	Covenants.....	40
6.	Taxes	44
7.	Terms of the Private Offering	46
8.	Including of the Notes on the market and trading regulations	48
9.	Additional information	49
10.	The Issuer	50
11.	Business of the Group	51
12.	Selected Financial Information of the Group	62

Terms and abbreviations used

Accounting Principles	:	International Financial Reporting Standards (IFRS) within the meaning of Regulation 1606/2002/EC (or as otherwise adopted or amended from time to time).
Additional Collateral	:	Additional Collateral described in Clause 3.2.8. "Additional Collateral of the Notes".
Additional Collateral Provider	:	Additional Collateral Provider described in Clause 3.2.8. "Additional Collateral of the Notes".
Adjusted Equity	:	The aggregate book value of the Group's total equity on a consolidated basis, increased by Subordinated Debt, according to the most recent Financial Report.
Agent	:	Authorised representative under these Terms of the Notes Issue.
AML	:	Anti-money laundering and counter terrorism and proliferation financing.
Arranger	:	Signet Bank AS, with registration No. 40003076407 and with a legal address at: Antonijas iela 3, LV-1010, Riga, the Republic of Latvia.
Business Day(s)	:	A Business Day is a day when the Nasdaq CSD system is open for business.
Cash and Cash Equivalents	:	Cash and cash equivalents of the Group in accordance with the Accounting Principles.
Change of Control	:	<p>The occurrence of an event or series of events whereby, a person (natural person or legal entity) or group of persons acting in concert (directly or indirectly) acquires the influence (whether by way of ownership of shares, contractual arrangement or otherwise) to:</p> <ul style="list-style-type: none">(a) cast or control the casting of more than 50% (fifty per cent) of the maximum number of votes that might be cast at a general meeting of the shareholders of the Issuer; or(b) appoint or remove or control the appointment or removal of a majority of the management board or supervisory board members or other equivalent officers of the Issuer. <p>For the sake of clarity, a Change of Control does not take place if:</p> <ul style="list-style-type: none">(a) change of control takes place between existing shareholders (including where any changes to the board or supervisory board members or other equivalent officers of the Issuer takes place); or(b) Existing shareholders each individually lose control over the Issuer and no other person gains power to cast or control the casting of more than 50% (fifty per cent) of the maximum number of votes that might be cast at a general meeting of the

shareholders of the Issuer (including where any changes to the board or supervisory board members or other equivalent officers of the Issuer takes place).

Collateral	:	Collateral is described in Clause 3.2.7 “Collateral of the Notes”, which serves as security for the fulfilment of the Issuer’s obligations to the Noteholders in accordance with these Terms of the Notes Issue.
Collateral Agent	:	A person holding the Collateral on behalf of the Noteholders and authorized to act with the Collateral in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement, initially the Law Office ZAB “VILGERTS” SIA, VAT with registration No. LV40203309933 and with a registered address at: Elizabetes iela 33 - 8, LV-1010, Rīga, the Republic of Latvia.
Collateral Agent Agreement	:	The agreement entered into between the Issuer and the Collateral Agent which stipulates the rights and obligations of the Collateral Agent in relation to the establishment, maintenance, and enforcement of the Collateral, as defined in these Terms of the Notes Issue, in the interests of the Noteholders, as well as the Collateral Agent’s compensation. The Collateral Agent Agreement is enclosed an Annex 1 to these Terms of the Notes Issue and constitutes an integral part thereof.
Collateral Agreement	:	The commercial pledge agreement concluded or to be concluded on the provision of the Collateral referred to in Clause 3.2.7 “Collateral of the Notes” between the Collateral Agent and the relevant Collateral Provider and governed by Latvian Legal Acts The Collateral Agreements are enclosed as Annexes 1 to these Terms of the Notes Issue and constitute an integral part thereof.
Collateral Provider	:	Initially the following subsidiaries of the Issuer AS “LONGO Latvia”, with registration No. 40203147079 and with a legal address at: Mūkusalas iela 72A, LV-1004, Riga, the Republic of Latvia, and UAB Longo LT, with registration No. 304837699 and with a legal address at: Perkūnkiemio g. 13-91, LT-12114, Vilnius, the Republic of Lithuania.
Coupon	:	Interest on Notes calculated in accordance with the Clause 3 “Information on Notes”.
Coupon Payment Date	:	Coupon payments are made once a month on the last Business Day of the month.
Custodian	:	A Nasdaq CSD participant directly or licensed credit institution or investment brokerage company that has a financial securities’ custody account with Nasdaq CSD participant.
EBITDA	:	Consolidated net profit of the Group for the Relevant Period calculated according to the most recent Financial Reports:

- (a) before deducting any amount of tax on profits, gains or income paid or payable by any Group company;
 - (b) before deducting any Net Finance Charges;
 - (c) before taking into account any exceptional items which are not in line with the ordinary course of business;
 - (d) not including any accrued interest owing to any Group company;
 - (e) before taking into account any gains or losses on any foreign exchange gains or losses; and
 - (f) after adding back any amount attributable to the amortisation, depreciation or depletion of assets.
- Equity Ratio** : Ratio of Adjusted Equity to consolidated assets of the Group calculated according to the most recent Financial Report.
- EUR** : Euro (the single currency of the Member States of the European Monetary System).
- Fair Market Value** : With respect to any asset, the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving any distress of either party, determined in good faith by the management board of the Group.
- FCMC** : The Financial and Capital Market Commission (*Finanšu un kapitāla tirgus komisija*), is an autonomous public institution of the Republic of Latvia, which carries out, but not limited to, the supervision of Latvian banks, credit unions, insurance companies and insurance brokerage companies, participants of financial instruments market, as well as private pension funds, payment institutions and electronic money institutions.
- Financial Indebtedness** : Any interest bearing Financial indebtedness of the Group including:
- (a) monies borrowed and debt balances at banks or other financial institutions;
 - (b) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument, including these Notes;
 - (c) the amount of any liability in respect of any financial lease;
 - (d) any monies borrowed from any shareholder of the Issuer;
 - (e) any amount raised under any other transaction (including any forward purchase or sale agreement) having the commercial effect of a borrowing and treated as a borrowing under the Accounting Principles.
 - (f) any derivative transaction based on mark-to-market value;

	(g)	any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
	(h)	without double-counting any guarantee or other assurance against financial-loss in respect of a type referred to the above items (a) to (f).
Financial Report	:	The annual audited consolidated financial statements of the Group and the quarterly interim unaudited consolidated reports of the Group prepared in accordance with the Accounting Principles.
First North	:	The Multilateral Trading Facility (MTF), First North, operated by Nasdaq Riga.
First Settlement Date (Issue Date)	:	The date on which interest on the Notes starts to accrue: 30 November 2021.
Force Majeure Event	:	Has the meaning set forth in Clause 5.4.
Group or Longo	:	The group of the legal entities comprising of the Issuer and its direct or indirect Subsidiaries.
Guarantees	:	Guarantees made by the Guarantors for the fulfilment of the Issuer's obligations under the Notes in favour of the Noteholders.
Guarantors	:	An entity providing the guarantee of fulfilment of the Issuer's obligations under the Notes. The Notes shall be guaranteed by the subsidiaries indicated in Clause 3.2.6.
Interest calculation period	:	The period of time between the First Settlement Date and the date of the first payment or between the two Coupon Payment Dates.
Interest Coverage Ratio (ICR)	:	The ratio of EBITDA to Net Finance Charges for the Relevant Period.
Inventory	:	The inventory of the Group in accordance with the Accounting Principles.
Inventory Coverage Ratio	:	The ratio of Pledged Inventory plus consolidated Cash and Cash Equivalents of the Group divided by the Secured Financial Indebtedness.
Issuer	:	AS LONGO Group, with registration No. 42103081417 and with a registered address at: Mūkusalas iela 72A, LV-1004, Riga, the Republic of Latvia.
Legal Acts	:	All legal acts, including the regulations of the FCMC, Nasdaq Riga and Nasdaq CSD, which are in force in the Republic of Latvia, The Republic of Latvia and each other country in which any Group Subsidiary is domiciled.

Majority Noteholders	:	<p>Noteholders who collectively (excluding the Issuer, its direct and/or indirect shareholders and the Related Parties holding any Notes) hold in aggregate the Notes with the Nominal representing at least 1/2 (one half) of the aggregate Nominal of all outstanding Notes plus at least one additional Note (excluding any Notes held by the Issuer and the Related Parties (if such Notes exist)).</p> <p>For the avoidance of doubt, Notes held by the Issuer or the Related Parties shall not give them rights provided to the Majority Noteholders in accordance with these Terms of the Notes Issue.</p>
Maturity Date	:	<p>The date when the Notes shall be repaid in full at their Nominal Value by the Issuer, which is 30 November 2024.</p>
Minimum Settlement Unit	:	<p>The minimum amount which can be held and traded, which is equal to the Nominal Value.</p>
Nasdaq CSD or Depository	:	<p>Nasdaq CSD SE (with registration No. 40003242879 and with a legal address at: Valņu iela 1, LV-1050, Riga, the Republic of Latvia).</p>
Nasdaq Riga	:	<p>AS "Nasdaq Riga" (with registration No. 40003167049 and with a legal address at: Valņu iela 1, LV-1050, Riga, the Republic Latvia).</p>
Net Finance Charges	:	<p>All recurring debt related charges of the Group for the Relevant Period calculated according to the most recent Financial Reports:</p> <ul style="list-style-type: none">(a) including cash interest expense on Financial Indebtedness;(b) after deducting any interest income relating to Cash and Cash equivalents; and(c) excluding any payment-in-kind interest capitalized on loans from Related Parties and/or Subordinated Debt.
Nominal Value	:	<p>Face value of a single Note, which is EUR 1,000.00 (one thousand Euro).</p>
Notes	:	<p>The debt security issued by the Issuer according to these Terms of the Notes Issue.</p>
Noteholder(s)	:	<p>A private person or legal entity that is an owner of one or more Notes and has a claim against the Issuer as stipulated by the Legal Acts.</p>
Parallel Debt	:	<p>The legal arrangement described in Clause 3.2.9 of these Terms of the Notes Issue.</p>
Permitted Business	:	<p>Any businesses, services or activities that are the same as, or reasonably related, ancillary or complementary to, any of the businesses, services or activities in which the Group is engaged on the Issue Date, and reasonable extensions, developments or expansions of such businesses, services or activities.</p>

Pledged Inventory	:	Current and future inventory of the Group in accordance with the Accounting Principles that is pledged in favour of the Noteholders in accordance with the Collateral Agreement.
Potential Investor(s)	:	A private person or legal entity that has, according to the terms stated in these Terms of the Notes Issue, expressed interest or is planning to purchase for its own account one or more Notes.
Promissory Note	:	An agreement between the Issuer and the Collateral Agent where the Issuer reassures it owes any sums due under these Terms of the Notes Issue to the Collateral Agent and which may be used, if necessary, for the purposes of registration and enforcement of the Collateral.
Prospectus Regulation	:	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OJ L 168, 30.6.2017, at pp 12-82.
Register	:	The Commercial Pledge Register of the Companies Register of the Republic of Latvia.
Related Parties	:	Any person (natural person or legal entity) in relation to the Issuer or the Group, which: <ul style="list-style-type: none">(a) is a direct or indirect shareholder holding more than 25% (twenty-five per cent) of the capital shares or voting stock;(b) directly or indirectly has Control;(c) is member of the management board or the supervisory board (if relevant); or(d) is a spouse of any persons referred to in (a) to (c).
Relevant Period	:	Each period of 12 (twelve) consecutive calendar months, fixed at the end of each calendar quarter.
Secured Financial Indebtedness	:	Means the aggregate principal amount of all outstanding Financial Indebtedness of the Group (including these Notes) that is secured by a pledge on assets of the Group and which ranks <i>pari passu</i> with the Notes.
Settlement Unit Multiple	:	Multiple that defines the settlement quantity or nominal must be a multiple of the Minimum Settlement Unit.
Subordinated Debt	:	Unsecured debt of the Group in the form of loans from shareholders and/or subordinated notes with maturity after the Maturity Date. The debt is subordinated to other more senior debts or notes (including these Notes) with respect to claims on assets or earnings and is fully or partly repayable only if:

- (a) the Group's existing and future financial and other covenants are met after the repayment; and/or
- (b) settlement of all obligations under the Notes are made.

Subsidiary(ies) : Direct and indirect subsidiaries of the Group defined in accordance with the IFRS.

Terms of the Notes Issue : This document, which entitles the Issuer to execute the Issue and the initial offering of the Notes.

BELOW IS A DESCRIPTION OF THE RISK FACTORS THAT ARE MATERIAL FOR THE ASSESSMENT OF THE MARKET RISK ASSOCIATED WITH THE NOTES AND RISK FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES. SHOULD ONE OR MORE OF THE RISKS DESCRIBED BELOW MATERIALISE, THIS MAY HAVE A MATERIAL ADVERSE EFFECT ON THE CASH FLOWS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION OF THE ISSUER AND THE GROUP. MOREOVER, IF ANY OF THESE RISKS MATERIALISE, THE MARKET VALUE OF THE NOTES AND THE LIKELIHOOD THAT THE ISSUER WILL BE IN A POSITION TO FULFIL ITS PAYMENT OBLIGATIONS UNDER THE NOTES MAY DECREASE, IN WHICH CASE THE POTENTIAL INVESTORS COULD LOSE ALL OR PART OF THEIR INVESTMENTS.

BEFORE DECIDING TO PURCHASE THE NOTES, POTENTIAL INVESTORS SHOULD CAREFULLY REVIEW AND CONSIDER THE FOLLOWING RISK FACTORS, IN ADDITION TO ALL OTHER INFORMATION PRESENTED IN THE TERMS OF THE NOTES ISSUE, AND CONSULT WITH THEIR OWN PROFESSIONAL ADVISORS IF NECESSARY. MOREOVER, POTENTIAL INVESTORS SHOULD BEAR IN MIND THAT SEVERAL OF THE DESCRIBED RISK FACTORS CAN OCCUR SIMULTANEOUSLY AND TOGETHER WITH OTHER CIRCUMSTANCES COULD HAVE A POTENTIALLY STRONGER IMPACT ON THE ISSUER OR THE GROUP. THIS IS NOT AN EXCLUSIVE LIST OF RISK FACTORS, AND ADDITIONAL RISKS, OF WHICH THE ISSUER IS NOT PRESENTLY AWARE, COULD ALSO HAVE A MATERIAL ADVERSE EFFECT ON THE ISSUER AND THE GROUP.

1. Risk Factors

1.1. Important note

The risks indicated in this section, if some or all of them materialize, may reduce the Issuer's ability to fulfil its obligations or cause its insolvency or restructuring in the worst-case scenario.

This section may not feature all of the potential risks, which may affect the Issuer and the Group.

1.2. Risks related to the economic and regulatory environment

1.2.1. Macroeconomic risk

The Group's main business is sale of used cars. The Group's business operations are currently centred in the Republic of Latvia, the Republic of Lithuania and the Republic of Estonia. The Group's business is, to a certain extent, dependent on the general economic environment across the European Union (EU) (due to the geographical focus of their activities) and in particular within the Baltics. The general economic environment has a major impact on the spending propensity of European customers and, in turn, on the demand for mobility services.

During phases of economic weakness, demand for mobility services may fall as a result of cost-saving measures by both private households and companies. A downturn in the overall economy could therefore adversely affect demand for used cars which could have a material adverse effect on the business operations, financial conditions, results of operations and cash flows of the Group.

The Republic of Lithuania is the Group's main market, comprising of 48% (forty-eight per cent) of the Group's total turnover for 9 months 2021. The Group's turnover in the Republic of Latvia was 33% (thirty-three per cent) and in the Republic of Estonia 19% (nineteen per cent) of the Group's total turnover. The Group is therefore particularly sensitive to the economic environment in the Baltics.

The Baltics, however, are not immune to regional and global macroeconomic fluctuations. The Baltic economies are closely linked with the economies of the other European Member States and the European Monetary System. A slowdown in the EU may negatively affect the economies of the Baltic states, causing an adverse effect on the Group's business operations.

The global economy and most industries have seen strong headwinds since the first quarter of 2020, driven by the outbreak of the global pandemic (COVID-19). Although the Baltic markets

experienced an economic downturn as a result of the global pandemic, the recession in the Republic of Lithuania, the Republic of Latvia and the Republic of Estonia was among the lowest in the EU. During 2020, the Republic of Lithuania, the Republic of Estonia, and the Republic of Latvia showed real GDP contraction of 0.8% (zero-point-eight per cent), 3% (three per cent), and 3.6% (three-point-six per cent), respectively.

	Latvia			Estonia			Lithuania		
	2020	2021F	2022F	2020	2021F	2022F	2020	2021F	2022F
Real GDP (% yoy)	-3.6	3.8	5.1	-3.0	6.5	4.5	-0.8	4.4	4.0
CPI (% yoy)	0.1	2.0	2.5	-0.6	2.5	2.5	1.1	2.6	2.4
Unemployment (%)	8.2	8.1	7.5	6.8	-	-	8.9	-	-

Source: Bloomberg consensus

While the Baltics have demonstrated faster than expected economic recovery during 2021 and economists generally expect solid economic performance in 2022 as well, the overall uncertainty in light of the global pandemic remains elevated and actual economic growth rates could turn out to be significantly lower and/or inflation could become higher, resulting in lower than expected demand for the Group's products and/or higher cost base, and thus lower business and financial performance of the Group.

1.2.2. The ongoing global pandemic risk

The global pandemic has materially adversely impacted and disrupted, as well as may continue to materially adversely impact and cause disruption to the Group's business operations and financial performance.

The pandemic poses a risk to the Group's employees, customers, suppliers, and communities in which the Group operates. Lockdown measures and other similar restrictions have resulted in decrease in sales and delayed its profitability.

The Group is mitigating the global pandemic risk. In this regard, as at the moment of these Terms of the Notes Issue 85 (eighty-five) out of the 90 (ninety) employees of the Group are either immune (vaccinated or natural immunity) or have committed to vaccination. In turn, this means continuity of business operations are ensured in all critical departments (*i.e.*, sales, preparation and sourcing, *etc.*). During lockdown, all Group branches can continue to sell cars. The online approach taken by the Group ensures a majority of the business operations are not being affected. Due to the achieved results, the Group can endure up to a 35% (thirty-five per cent) sales decrease based on the September 2021 volume and still break even.

During the first and second waves of the global pandemic which took place from March till June 2020 and from November 2020 till February 2021 respectively, as sales activities were lower the Group was forced to significantly reduce its cost base while working on the processes and system improvements. As a result, the Group is successfully emerging from the global pandemic disruption. The Group's monthly revenue growth rate was up 250% (two hundred and fifty per cent) from pre-pandemic levels (measured from February 2020 to September 2021). The Group

has reached a first break-even quarter during Q2 2021 and profitability for the period ended 30 September 2021.

The vaccination rates in the Baltics currently are the lowest in the EU and, thus, the current or next waves of the global pandemic may hit the region disproportionately harder. Therefore, the likelihood of future lockdowns or severe restrictive measures may not be ruled out. Thus, any further restrictions as a result of local governmental actions, could have an adverse effect on the Group's financial position and cash flows, as well as may affect its ability to meet its financial obligations.

1.2.3. Regulatory risk

The Group is subject to national Latvian, Lithuanian, Estonian, Dutch, Belgian and German laws and regulations, as well as EU laws and regulations that regulate the industry, consumer rights protection, personal data processing, prevention of money laundering and terrorism and proliferation financing or govern the industry in which the Group operates. Any uncertainty as to the regulatory trends or changes in policies in relation to the Group's industry may delay or prevent the achievement of the strategic plans or increase the cost of implementing such plans. The sale of the Group's products and the provision of services are subject to a high level of regulation and oversight applicable to the consumer sector.

The Group complies with all legislative requirements and other regulations as of the date of the Terms of the Notes Issue. Legislation and regulations may change however, and the management cannot guarantee, in such cases, it would be able to comply immediately, without material measures to be in line with the requirements of any revised legislation or other regulations. Adapting the Group's operations to any of the changes described above may incur costs for the Group that are difficult to anticipate, which in turn may have a material adverse effect on the Group's business operations, financial conditions and results of operations.

1.2.4. Taxation risk

The Group currently operates in 6 (six) countries (the Republic of Latvia, the Republic of Lithuania, the Republic of Estonia, the Netherlands, Belgium, and Germany) all with different tax regimes. Changes to local tax regimes or challenges to the current tax structures of the Group's business could have a material adverse effect on the business operations, financial conditions, or results of operations and cash flows of the Group. Additionally, certain tax positions taken by the Group require the judgement of management and, thus, could turn out to be inefficient or challenged by tax authorities due to the possible erroneous interpretation of tax legislation.

1.2.5. Relations with key vendors and supply chain risk

The Group imports its products from third-party suppliers, mainly in the Netherlands, Belgium and Germany. In total, the Group has more than 300 (three hundred) different partners. In 2020, approximately 39 % (thirty-nine per cent) of the Group's supply, by value, was delivered by 18 (eighteen) different suppliers. The Group also relies on arrangements with third-party logistics companies for the delivery of its products.

Accordingly, the Group relies on third parties to transport its products over large geographical distances. Any disruption to the supply chain caused by issues with the Group's suppliers can have a material adverse effect on its inventory levels, assortment of products, revenues, financial conditions and the Group's competitive position.

Delays in shipments of the Group's products or an interruption of the delivery of products, due to the unavailability of products, personnel, transportation, work stoppages, delays in customs inspections, political instability, security requirements or other factors beyond the Group's

control. Further, costs and delays associated with the transitioning between suppliers could also adversely impact the Group's ability to meet consumer demands and may result in fewer sales. Any of these risks could have a material adverse effect on the Group's business operations, financial conditions and results of operations.

1.2.6. Inventory management risk

The Group maintains a certain level of inventory in order to ensure the optimal flow of the inventory and the ability to satisfy customer demands. The Group's total inventory level was EUR 5.9 million (five-point-nine million Euro) as of 30 September 2021, constituting around 54% (fifty-four per cent) of the Group's total assets.

Insufficient levels of inventory can leave a significantly negative impact on the Group's revenue. However, in the event of high levels of unsold products, the Group could be required to sell some of its products at lower prices, which could negatively affect the Group's operating profits and have a materially adverse impact on its business operations and financial conditions.

Alternatively, the Group may underestimate the demand of one product compared to another and acquire stock inadequately as a result. To be responsive to shifting customer demands, the Group must manage its product selection and inventory levels closely. If the Group misjudges, fails to identify or fails to react swiftly to changes in consumer preferences, its sales could decrease, and the Group could see a significant increase in its inventories. Conversely, if the Group underestimates consumer interest in its products, it may experience inventory shortages and lower revenue and profitability than the Group could otherwise have achieved. Therefore, it is important for the Group to optimize inventory levels accordingly.

1.2.7. In-house preparation centre risk

The Group's business is, to a certain extent, dependent on the Group's ability to prepare used cars for sale in its in-house preparation centre. Currently the Group's in-house preparation centre output capacity is around 85 (eighty-five) to 100 (one hundred) cars per week, with further possible mid-term increase to around 150 (one hundred and fifty) to 180 (one hundred and eighty) cars per week. With an increase in volumes, there could be a need to recruit more technicians to meet the customer demand (please refer to the risk factor "Key employee dependency"). If the in-house preparation centre output capacity would not meet the customer demand, it would lead to lower revenue and profitability the Group could have otherwise achieved.

1.2.8. Warranties risk

The Group has warranty obligations to its customers. There is a risk that the assumptions made on the current administrations of those commitments proves not to be adequate. If materialized, there is a risk it will cause a negative impact on the Group's earnings and financial position

1.2.9. Financial leverage risk

Historically, the operations of the Group have mainly been financed through shareholder funds. Nevertheless, while the capitalization was 92% (ninety-two per cent) as of 30 September 2021, the financial leverage of the Group will increase as a result of the Notes issue and could increase further due to potential additional external financing in the future, which could result in negative consequences for the Group's business operations. Such consequences would include, but are not limited to, requiring the Group to dedicate a substantial portion of its cash flows for financing debt, increasing vulnerability to a downturn in the Group's business operations or general economic conditions, placing the Group at a competitive disadvantage relative to its competitors with lower leverage, limiting flexibility in reacting to competition or changes in the business or industry.

Any of these or other consequences or events could have a material adverse effect on the Group's ability to satisfy its obligations on Financial Indebtedness.

1.2.10. Key employee dependency

Retention of senior management is important to the Group's business operations, due to the limited availability of experienced and talented retail executives. If the Group were to lose the services of members from its senior management team and be unable to employ suitable replacements in a timely manner, its business, results of operations and financial condition could be materially and adversely affected.

In the future, the Group's activities will be affected by its ability to attract, preserve, and motivate highly qualified and experienced personnel. There is relatively high competition for personnel with the relevant skills and experience in the Baltics. To retain and motivate its employees, the Group has introduced employee stock options to its key senior management personnel.

1.2.11. Employee risk

As of 30 September 2021, the Group employs 90 (ninety) full-time employees, 26 (twenty-six) of whom are in the Republic of Latvia, 55 (fifty-five) in the Republic of Lithuania, 5 (five) in the Republic of Estonia, and 4 (four) in the Netherlands. The Group's employees are a significant part of the overall customer experience and brand image of the Group. Therefore, it is of high importance for the Group to have a professional and highly skilled team of employees with low employee turnover rate. To retain and motivate its personnel, the Group has a performance bonus scheme in place.

Additionally, in the future the Group may be unable to attract enough skilled employees that would fit the needs and the corporate culture of the Group. Training of new employees also takes time and resources. Any difficulties in attracting new and/or to retain existing employees could have a material adverse effect on the Group's service quality and reputation, business operations, financial conditions and results of operations.

1.2.12. Operational risks

Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful internal processes, personnel management, systems, or external circumstances. Thorough personnel selection is carried out, accurate descriptions of job duties are compiled, division of duties is coordinated, which allows the Group and management to reduce operational risks. The Group's internal controls, procedures, compliance systems and risk management systems may prove to be inadequate to prevent and discover previous or future breaches of laws and regulations and generally to manage risks which could have a material adverse effect on the Group's business operations, financial conditions and results of operations.

1.2.13. Competition risk

Overall competition across the used car market in the Baltics is very fragmented. While a large part of used car sales are taking place amongst private individuals, this is slowly changing and following the course of other EU Member States. Overall government regulations covering used car sales in each of Baltic states are being rapidly enhanced and updated, bringing new potential administrative hurdles. There is a risk new notable market players not yet present in the Baltics could enter the marketplace, thus creating additional competition for the local market players. Any failure to innovate and respond effectively to the evolving market and competition could lead to a loss of market share which could have a material adverse effect on the Group's business operations, financial conditions and results of operation.

1.2.14. Corporate governance and policy-related risk

The Group's success is dependent on its reputation and brand image. To this end, the Group must earn customers' confidence by providing products and services that meet customer demands and appeal to customers' preferences, including with respect to sustainability, innovation, quality, reliability, and value (total cost of ownership). This requires the management to make the right strategic decisions and invest in technologies, products and services that continue to meet customers' requirements. Within the Group, this requires the sharing of knowledge and information through appropriate management structures and processes. Furthermore, suitable policies, guidelines, trainings, and advice need to be implemented. If the Group fails to implement the correct processes and management structures, the Group may be unable to anticipate customer demands which could materially affect Group's brand and financial results.

Furthermore, the Group operates in an industry where efficiency improvements and cost savings are crucial in order to maintain competitiveness and profitability. The Group's ability to achieve the targets is also dependent on assumptions relating to several external factors, including development of the used cars marketplace, political, legal, fiscal, market and economic conditions, regulatory developments and wage increases, all of which are difficult to predict and are beyond the Group's control. These assumptions may prove to be inaccurate. If the Group fails this may have a material adverse effect on its business operations, financial conditions and results of operation.

1.2.15. IT system and process risk

The Group's ability to manage critical business operations depends on the ability of its IT systems, including the IT infrastructure, and processes to work effectively and securely without interruptions. There is a risk, these systems will be disrupted by, for example, software failures, computer viruses, hacking, ransomware, sabotage and physical damage, and the high pace of change in the overall IT environment introduces increases risk of data breaches. For the performance of all the Group's internal communication and the possibility to conduct all forms of work within the Group, and for the maintenance of all external communication and customer relations, the everyday functionality of the IT system is of vital importance.

Therefore, any malfunction within these areas constitutes a risk that would severely impair the performance of the Group and the services offered to customers. There is also the underlying risk such a failure, or major disruption or difficulties in maintaining, upgrading and integrating these systems, may lead to a degraded reputation for the Group among its customers. Any intrusion into the Group's IT systems, for example, from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, resulting in the disclosure of confidential information and/or create significant financial and/or legal exposure and the risk of damage to the Group's reputation and/or brand. The degree to which IT failure and the materialization of any IT risk may affect the Group is uncertain and presents a significant risk to the Group's operations.

1.2.16. E-commerce risk

The Group offers its customers an online shopping experience through websites that provide for the pre-purchasing experience by viewing all cars online through the Group's local websites. The Group's websites currently contain more than 550 (five-hundred and fifty) cars with full technical information, certification, high quality pictures, including 360 (three-hundred and sixty) degree interior viewing, exterior tours, created in a unique 3D photo studio in Baltics managed by the Group. In September 2021, 93% (ninety- three per cent) of sales originated from the Group's websites.

There is a need to keep up-to-date with rapid technological, legal and behaviour changes and according to that, implement new functionalities on the Group's websites, which creates a risk of unexpected costs being incurred. There is always the inherent risk customers will find the Group's websites difficult to use and utilize them less than expected.

Furthermore, the Group bears liability for any online content published on its websites.

Failure to respond accordingly to these risks and uncertainties could reduce the revenues generated by online leads, as well as have a detrimental effect on the brand, reputation and prospects of the Group.

1.2.17. Risk of natural disasters and other business disruption

The Group's operations are vulnerable to damage or interruption from various natural disasters and business disruptions, such as fire, flood, power losses, telecommunication failures, terrorist attacks, acts of war, human error, and other events. A significant natural disaster could have a material adverse impact on the Group's ability to conduct its business, and insurance coverage may be insufficient to compensate losses that may occur. Although the Group has implemented business continuity plans, acts of terrorism, war, civil unrest, violence or human error could cause disruptions to the Group's business or the economy as a whole. Any of these occurrences may have a material adverse effect on the Group's business operations, financial conditions, results of operations and cash flows.

1.2.18. Privacy and data protection breach risk

The Group's business is subject to a variety of laws and regulations that regulate user privacy issues, data protection, advertising, marketing, disclosures, distribution, electronic contracts and other communications, consumer protection and online payment services. Severity of consequences in case of non-compliance with the said privacy laws may differ from jurisdiction-to-jurisdiction.

The introduction of new products or the expansion of the Group's activities in certain jurisdictions may subject the Group to additional obligations under privacy-related laws and regulations.

Existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, the expansion into new markets, result in negative publicity, increase the Group's operating costs, require significant management time and attention, and subject the Group to inquiries or investigations, claims or other remedies, including demands which may require the Group to modify or cease existing business practices and/or pay fines, penalties or other damages. This may have a material adverse effect on the Group's business, financial condition, results of operations, prospects and cash flows.

Although the Group has adopted and continues to adopt appropriate technical and organisational measures (for example, adopting internal documents (policies, procedures, risk assessments, etc.) regulating privacy matters, conducting trainings of employees, appointing personal data protection officers, etc.), to ensure compliance with applicable privacy laws and regulations, the Group cannot guarantee its employees will comply at all times with such laws and regulations. If the Group's employees fail to comply with such laws and regulations in the future, the Group may become subject to fines or other penalties which may have an adverse impact on its reputation, business, financial condition, results of operations, prospects and cash flows.

1.3. Risks related to the Notes

1.3.1. Notes repayment risk

The Notes will rank *pari-passu* with other senior Secured Financial Indebtedness of the Issuer. Directly after the Notes issue, the Group's only Secured Financial Indebtedness will be the Notes. However, the Group is not prohibited from taking on additional Financial Indebtedness, including Secured Financial Indebtedness and pledging assets in favour of other creditors in the future if the Covenants set forth in Clause 5 of these Terms of the Notes Issue are met.

In the case of the Group's insolvency, Noteholders have the same right to receive their investment as other creditors of the relevant group in accordance with applicable local regulatory enactments. There are no contracts or other transaction documents, which would subordinate the claims of Noteholders to other secured obligations of the Group.

The Issuer may not have the ability to repay or refinance these obligations. If the maturity date or date when the put option is exercised occurs at a time when other arrangements prohibit the Issuer from repaying the Notes, it could try to obtain waivers of such prohibitions from the lenders and the Noteholders under those arrangements, or the Issuer could attempt to refinance the borrowings that contain the restrictions. If the Issuer fails to obtain the waivers or refines these borrowings, it would be unable to repay the Notes.

1.3.2. Liquidity risk

Neither the Group nor any other individual guarantees the minimum liquidity of the Notes. Thus, the Noteholders should consider the fact they may not be able to sell or may face difficulties in selling their Notes on the secondary market at their fair market value or at all.

1.3.3. Delisting risk

After registration of the Notes the Issuer plans to request admission to trading of the Notes on the Multilateral Trading Facility (MTF) First North operated by Nasdaq Riga. There is a risk Nasdaq Riga will not accept the Notes to be admitted to trading on First North or order the Notes are delisted from First North before maturity after admission to trading has taken place due to changes in legal acts, including Nasdaq Riga regulations, or recommendations by the FCMC.

1.3.4. Price risk

The development of market prices of the Notes depends on various factors, such as changes of interest rates, central bank policies, overall economic development, or demand for the Notes.

The Notes bear a fixed interest rate. Thus, Potential Investors who seek to sell the Notes before their final maturity are exposed to interest rate risk, if the market interest rate increases, the price of fixed rate Notes typically declines.

Neither the Issuer, nor any other person undertakes to maintain a certain price level of the Notes. The Potential Investors are thus exposed to the risk of unfavourable price development of their Notes if they sell the Notes prior to final maturity. If a Potential Investor decides to hold the Notes until maturity, the Notes will be redeemed at their Nominal Value.

1.3.5. Early redemption risk

According to the Terms of the Notes Issue, the Notes may be redeemed prematurely at the initiative of the Issuer. If the early redemption right is exercised by the Issuer, the rate of return from the investment into the Notes may be lower than initially expected, as the Potential Investor might not be able to reinvest the redemption proceeds in a comparable security at an effective

interest rate as high as the interest rate on such Notes being redeemed. The Group's redemption right may also adversely impact the Potential Investor's ability to sell such Notes.

1.3.6. Tax risk

Tax rates and tax payment procedures applicable at the time of purchasing the Notes by tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate the increase in taxes to Potential Investors, therefore Potential Investors may receive smaller payments related to Notes.

1.3.7. Resolutions of Investors risk

The majority resolution of the Investors is binding on all Investors. Thus, a Potential Investor is subject to the risk of being outvoted by a majority resolution of the other Potential Investors. As such, certain rights of such Potential Investor against the Issuer may be amended or reduced, or even cancelled, without its consent.

1.3.8. Risk that some Noteholders might have more preferential terms than others

While the Issuer will try to maintain the proportional reduction principle to the extent possible in final allocation of the Notes, in case the total number of Notes subscribed for is higher than the number of Notes available, the Issuer has a right to refuse all or part of the subscribed Notes to any Potential Investor due to perceived risks that might not be directly measurable and subjective, thus, the proportionality principle might not be observed.

Additionally, the Issuer has the right to sell the Notes at a price lower than their Nominal value to selected Noteholders and / or enter into agreements that may add additional rights to selected Noteholders if the Issuer perceives them as especially important for this Notes issue due to the size of their investment or added experience. This may result in a situation where some Noteholders might gain preferential terms for investment into the Notes than the rest of the Noteholders.

1.4. Risks related to Collateral and Guarantees

1.4.1. Risks associated with the Collateral Agent Agreement

The Noteholders are represented by the Collateral Agent in all matters relating to the Collateral. There is a risk the Collateral Agent, or anyone appointed by it, does not properly fulfil its obligations in terms of perfecting, maintaining, enforcing or taking other necessary actions in relation to the Collateral. Subject to the terms of the Collateral Agent Agreement, the Collateral Agent is entitled to enter into agreements with a third-party or take any other actions necessary for the purpose of maintaining, releasing or enforcing the Collateral or for the purpose of settling, among others, the Noteholders rights to the Collateral.

1.4.2. Risks associated with the value of the Collateral

The value of the Collateral is not fixed and is subject to changes in several factors, primarily the demand and supply conditions for used cars, which at times can be unpredictable and are out of the Group's control. Thus, the value of the Collateral might decline if unfavourable market conditions in the used car segment would result in a decline in prices of used cars. Additionally, if a sudden necessity to sell the Collateral were to arise, the Group might be forced to sell the Collateral at a discount to its market value and derive less value than expected from it.

Moreover, the Collateral structure could change over time due to changes in the Group's inventory and overall asset structure. Additionally, the Collateral is subject to damage defects, and the risk of theft. The cars can get damaged which could affect the resale value, if such a necessity were to

arise. Any of these risks related to the Collateral can negatively affect the value of the Collateral and the Group's ability to meet its obligations under the Notes.

Considering the Collateral Agent does not supervise the quality of the Collateral during the duration of the Issuer's obligations and the Collateral Agent has no liability to the Noteholders in this regard, there is a risk the Collateral may be taken over, but the realisation of the Collateral may be insufficient to fully satisfy the Noteholders' claims.

1.4.3. The Collateral and the Guarantees will be subject to certain limitation on enforcement and may be limited by the applicable law or subject to certain defences that may limit its validity and enforceability

The Collateral and the Guarantees provide the Collateral Agent, acting for the benefit of the Noteholders, with a claim against the relevant Collateral Provider and the Guarantor. However, the Collateral and the Guarantees will be limited to the maximum amount that can be guaranteed by the relevant Collateral Provider without rendering the relevant Collateral and Guarantee voidable or otherwise ineffective under the applicable law, and enforcement of each Collateral and Guarantee would be subject to certain generally available defences.

Enforcement of any of the Collateral and the Guarantees against any Collateral Provider will be subject to certain defences available to Collateral Providers in the relevant jurisdiction. Although laws differ among jurisdictions, laws and defences generally include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally. If one or more of these laws and defences are applicable, a Collateral Provider may have no liability or decreased liability under its Collateral and Guarantee depending on the amounts of its other obligations and applicable law.

There is a possibility the entire Guarantee or Collateral may be set aside, in which case the entire liability may be extinguished. If a court decided a Guarantee or Collateral was a preference, fraudulent transfer or conveyance and voids such Guarantee or Collateral, or holds it unenforceable for any other reason, the Noteholders may cease to have any claim in respect of the relevant Guarantor or Collateral Provider and would be a creditor solely of the Issuer and, if applicable, of any other Guarantor or Collateral Provider under the relevant Guarantee or Collateral which has not been declared void or held unenforceable.

The Notes will be guaranteed by the Guarantors, which are organised or incorporated under the laws of 4 (four) jurisdictions. In the event of a bankruptcy, insolvency or similar event of a Guarantor, bankruptcy, insolvency or similar proceedings could be initiated against that Guarantor in any of the relevant jurisdictions. The rights of Noteholders under the Guarantees will thus be subject to the laws of a number of jurisdictions, and it may be difficult to enforce such rights in several bankruptcy, insolvency and other similar proceedings.

Moreover, such multi-jurisdictional proceedings are typically complex and costly for the creditors. In addition, the bankruptcy, insolvency, administration and other laws of the jurisdiction of organization of the Issuer or the Guarantors may be materially different from, or in conflict with, one another, including in relation to the creditor's rights, the priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over laws of which jurisdiction(s) should apply and could adversely affect the ability to realise any recovery under the Notes and the Guarantees.

1.4.4. The enforcement of the Guarantee and the Collateral will be subject to the procedures and limitations set out in the Collateral Agent Agreement and these Terms of the Notes Issue

Even when the Collateral is enforceable, the enforcement is subject to the procedures and limitations agreed in the Collateral Agent Agreement and these Terms of the Notes Issue. There can be no assurance as to the ability of the Noteholders to instruct the Collateral Agent to initiate any enforcement procedures. Furthermore, any enforcement of security may be delayed due to the provisions of the Collateral Agent Agreement and these Terms of the Notes Issue.

1.4.5. The rights of the Noteholders depend on the Collateral Agent's actions and financial standing

By subscribing for, or accepting the assignment of, any Note, each of the Noteholders will accept the appointment of the Collateral Agent as the agent and representative of the Noteholders, to represent and act for such secured creditors, *i.e.*, Noteholders, in relation to the Collateral.

Only the Collateral Agent is entitled to exercise the rights under the Collateral and enforce the same. Any failure by an agent to perform its duties and obligations properly, or at all, may adversely affect the enforcement of the rights of the Noteholders due to, for example, inability to enforce the security and/or receive any or all amounts payable from the security in a timely and effective manner.

2. Party responsible for the Terms of the Notes Issue

2.1. Party responsible for the Terms of the Notes Issue

AS LONGO Group

Registration No. 42103081417

LEI code: 894500SNGNS9HL2FSI45

Registered office: Mūkusalas iela 72A, LV-1004, Riga, the Republic of Latvia

2.2. Representations and Warranties of the Issuer

The Issuer shall, in accordance with these Terms of the Notes Issue, issue the Notes and perform the obligations arising from the Notes to the Noteholders. The Issuer shall be liable to the Noteholders for due and complete fulfilment of its obligations deriving from the Notes.

The Issuer gives the following warranties to the Noteholders:

- I. The Issuer is a duly registered private limited company operating in compliance with the laws of the Republic of Latvia;
- II. All the Issuer's obligations assumed under this issue of the Notes are valid and legally binding to the Issuer and performance of these obligations is not contrary to the Issuer's Articles of Association, laws or any agreement concluded by the Issuer;
- III. The Issuer has all the rights and sufficient authorisations to issue the Notes and fulfil obligations arising from issuing the Notes;
- IV. The Issuer has performed all the formalities required for issuing the Notes and fulfilling the obligations arising here from;
- V. All information that is provided by the Issuer to the Noteholders is true, accurate, complete and correct as at the date of presenting the respective information and is not misleading in any respect;
- VI. The Issuer is solvent, able to pay its debts as they fall due, there are no liquidation or insolvency proceedings pending or initiated against the Issuer;
- VII. There are no legal or arbitration proceedings pending or initiated against the Issuer, which may have, or have had significant effect on the Issuer's financial position or profitability;
- VIII. There are no criminal or misdemeanour proceedings pending or initiated against the Issuer.

2.3. Assurance of the information provided in these Terms of the Notes Issue

The Issuer and its members of the board are responsible for the information contained in these Terms of the Notes Issue.

Hereby I, undersigned member of the board of AS LONGO Group Edgars Cērps certify the Issuer has taken all reasonable care to ensure the information contained in these Terms of the Notes Issue is, to the best of the Issuer's knowledge, true, complete and not misleading in any material respect.

Edgars Cērps

Member of the Board AS LONGO Group

3. Information on Notes

3.1. The use of the proceeds

The total issue size is EUR 3,000,000.00 (three million Euro).

Funds that will be raised as a result of the Notes issue will be used to finance its working capital needs (inventory purchases).

3.2. Information on the offered Notes

3.2.1. General information

The Notes are bearer and any individual or entity that holds the Notes in his securities account has the right to receive Coupon and the Nominal Value payments. It is planned to issue the Notes with a Nominal Value of EUR 1,000.00 (one thousand Euro) for one Note and total nominal value of EUR 3,000,000.00 (three million Euro).

The ISIN (International Security Identification Number) of the Notes allocated by Nasdaq CSD is LV0000860062.

3.2.2. Legal Acts that regulate the Notes issue

The Notes issue is a private placement arranged in compliance with the Financial Instrument Market Law and other Legal Acts of the Republic of Latvia that are in force including the FCMC, the Nasdaq CSD and the Nasdaq Riga regulations. Minimum subscription size for the Notes is EUR 100,000.00 (one hundred thousand Euro) with minimum step of EUR 1,000.00 (one thousand Euro).

All disputes between any one or more Noteholders and the Issuer shall be settled in courts of the Republic of Latvia in accordance with the Legal Acts of the Republic of Latvia in force. These Terms of the Notes Issue are drafted and signed in English and any translations of these Terms of the Notes Issue into another language are unofficial and made exceptionally for the Potential Investors' convenience. In case of any disputes' settlement, interpretation of the norms of the Terms of the Notes Issue in English holds the priority against an interpretation in any other language.

3.2.3. Form and accounting of the Notes

The Notes are issued in dematerialised form and will be recorded in the Latvian SSS (securities settlement system governed by Latvian Legal Acts), which will provide the maintaining function for the Notes. Noteholders may hold the Notes through Nasdaq CSD participants participating in the Latvian SSS.

3.2.4. Currency of the Notes

Currency of the Notes is in EUR (Euro).

3.2.5. Status of the Notes

The Notes rank *pari passu* with other senior secured obligations of the Issuer. In case of the insolvency of the Issuer, the Noteholders will be entitled to recover their investment on the same terms as other senior secured creditors in the respective claims' group according to the relevant Legal Acts. Save for mandatory provisions of law, there are no contracts or other transaction documents that would subordinate the claims of the Noteholders to other secured liabilities of the Group.

As of the date of these Terms of the Notes Issue, the Issuer has an outstanding Subordinated Debt from shareholders in the amount of EUR 2 million (two million Euro) that is subordinated to the Notes.

3.2.6. Guarantors of the Notes

The Guarantors guarantee the fulfilment of Issuer's obligations under the Notes.

The Notes shall be guaranteed by the subsidiaries of the Issuer:

- (a) AS Longo Latvia, with registration No. 40203147079 and a legal address at: Mūkusalas iela 72A, Riga, LV-1004, the Republic of Latvia;
- (b) UAB Longo LT, with registration No. 304837699 and a legal address at: Perkūnkiemio g. 13-91, LT-12114 Vilnius, the Republic of Lithuania;
- (c) Longo Estonia OÜ, with registration No. 14554950 and a legal address at: Peterburi tee 81, Harjumaa, Tallin linn, 13626, the Republic of Estonia;
- (d) Longo Netherlands B.V., with registration No. 858817986 and a legal address at: Laaglandseweg 47, 4214KD Vuren, the Netherlands.

3.2.7. Collateral of the Notes

The Notes are secured with a commercial pledge over all assets of the Collateral Provider as an aggregation of property at the moment of pledging, as well as its future components.

The Collateral shall be established in accordance with the terms and conditions of the relevant Collateral Agreement to be concluded between the Collateral Agent as pledgee and the relevant Collateral Provider as pledgor. The Collateral shall be established (registered) in the Register within 90 (ninety) days after the Issue Date. The Collateral shall be established in proportion (pro-rata) in case of a commercial pledge enforcement, giving the Noteholders rights to their respective share of the entire commercial pledge.

Ranking of the Notes as the liabilities of the Issuer is *pari passu* (equivalent with no priority) with the other liabilities of the Issuer secured in accordance with the collateral agreements.

Collateral Agent holds the Collateral for the benefit of the Noteholders and is authorised to act with the Collateral in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement and its amendments (enclosed as Annex 1 to these Terms of the Notes Issue). Noteholders have no rights to act with the Collateral directly, yet at the same time there are no restrictions set for the Noteholders' right to use any right that the law or these Terms of the Notes Issue provide and create and/or authorise an organisation/person that represents and acts on behalf of all Noteholders or part thereof. In case of the insolvency of the Issuer, all Noteholders have the right to represent their own interests in creditors' meetings. The Noteholders will have equal rights for satisfaction of their claims with other creditors ranking in the same claims' group.

The Collateral Provider shall be responsible for all the costs related to the registration of the Collateral and changes to the Collateral as specified herein.

3.2.8. Additional Collateral of the Notes

The Issuer shall: (a) procure that any Subsidiary of the Issuer which is not a Collateral Provider as of the Issue Date shall enter into transaction security documents with the Collateral Agent substantially equivalent to the existing Collateral Agreement (an "Additional Collateral Provider"); and (b) shall grant a pledge over assets of such Additional Collateral Provider to the Collateral Agent if the Issuer has detected the existing Collateral might not be sufficient to cover the requirements

of the Inventory Coverage Ratio as under the Clause 5.1.2. for the subsequent quarter. Such Additional Collateral Provider shall become a “Collateral Provider” and such new transaction security documents shall be “Collateral Agreement” for the purpose of these Terms of the Notes Issue. Notwithstanding the foregoing, the Issuer shall not be obligated to cause a Subsidiary to grant the Collateral to the extent such new Additional Collateral by a Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law which, in any case, cannot be prevented or otherwise avoided through measures reasonably available to the Issuer or the Subsidiary or any liability for the officers, directors or shareholders of a Subsidiary.

3.2.9. Parallel Debt

- 3.2.9.1. Notwithstanding any other provision of these Terms of the Notes Issue, for the purpose of ensuring and preserving the enforceability of the Collateral, the Issuer irrevocably and unconditionally undertakes to pay to the Collateral Agent, as creditor in its own right and not as representative of the Noteholders and as a solidary creditor together with the Noteholders for the purposes of Latvian Legal Acts, sums equal to and in the currency of each amount payable by the Issuer to each of the Noteholders (whether present or future and whether actual or contingent) in accordance with these Terms of the Notes Issue as and in case the amount falls due for payment under these Terms of the Notes Issue.
- 3.2.9.2. The Collateral Agent shall be entitled to act as a solidary creditor (jointly with the Noteholders) of each of the Notes (whether present or future and whether actual or contingent) of the Issuer to the Noteholders or any of them and, accordingly, the Collateral Agent shall have its own independent right to demand performance by the Issuer of any of those obligations.
- 3.2.9.3. For the avoidance of doubt, the aggregate amount due by the Issuer under the Parallel Debt will be decreased to the extent the Issuer has paid any amounts to the Noteholders under these Terms of the Notes Issue.
- 3.2.9.4. For the avoidance of doubt, to the extent the Issuer has paid any amounts to the Collateral Agent under the Parallel Debt the aggregate amount due by the Issuer to the Noteholders under these Terms of the Notes Issue will be decreased accordingly.
- 3.2.9.5. To the extent the Collateral Agent receives any amount in payment of the Parallel Debt following its respective specific written claim made to the Issuer, the Collateral Agent shall transfer such amount to the Noteholders in accordance with Clause 3.2.12.2. of these Terms of the Notes Issue and other sections (if any).
- 3.2.9.6. For the avoidance of doubt, the Parallel Debt shall become due and payable at the same time and to the same extent as the obligations of the Issuer to the Noteholders under these Terms of the Notes Issue have become due and payable.

3.2.10. Rights and Obligations of the Collateral Agent

- 3.2.10.1. By submitting a subscription order or acquiring the Notes on the secondary market, each Noteholder:
 - (a) appoints the Collateral Agent to act as its agent and to perform the obligations and exercise the rights in connection with the Collateral as set forth in these Terms of the Notes Issue, the Collateral Agreement and the Collateral Agent Agreement and authorises the Collateral Agent to exercise the rights, powers, authorities and discretions specifically given to the Collateral Agent under or in connection with

these Terms of the Notes Issue, the Collateral Agreement, and the Collateral Agent Agreement;

- (b) acknowledges the Issuer has concluded the Collateral Agent Agreement with the Collateral Agent;
- (c) confirms the fact that the Collateral Agent acts under the Collateral Agent Agreement concluded with the Issuer does not constitute any conflict of interests with respect to the Noteholders;
- (d) confirms the fact that the Collateral secures, *inter alia*, the Issuer's obligations towards the Collateral Agent does not constitute any conflict of interests with the Noteholders (for the avoidance of doubt, the Collateral Agent has the right to withhold the proceeds necessary for satisfying the fees, costs, expenses, damages and claims of the Collateral Agent in accordance with Clause 3.2.10.10 and other clauses of these Terms of the Notes Issue). Each of the Noteholders acknowledges the fact the Collateral secures, *inter alia*, the Issuer's obligations towards the Collateral Agent shall not prevent the Collateral Agent from fulfilling its obligations and acting in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement;
- (e) agrees upon the performance of its obligations and exercising of its rights in connection with the Collateral, the Collateral Agent shall be entitled to act at its own discretion, considering the interests of the Noteholders collectively and generally (and not of any particular one of the Noteholders), unless specifically instructed otherwise by the Majority Noteholders in accordance with Clause 3.2.11.4(b), 3.2.11.6, 3.2.11.7 of these Terms of the Notes Issue and without prejudice to Clause 3.2.11.10 of these Terms of the Notes Issue;
- (f) agrees the Collateral Agent shall have the right to advise the Issuer and to provide any services to the Issuer in any matters and in any fields of activity which do not directly relate to the performance of obligations of the Collateral Agent set forth in these Terms of the Notes Issue, and the Noteholder does not consider this to cause any potential or actual conflict of interests.

3.2.10.2. The functions and obligations of the Collateral Agent are limited to those expressly specified in the Collateral Agent Agreement and these Terms of the Notes Issue and, notwithstanding any other provisions of these Terms of the Notes Issue, such functions are limited to the exercise of those rights which belong to the Collateral Agent in its capacity as the holder of the Collateral (pledgee). The Collateral Agent is required to perform its obligations in relation to the Collateral only if the Collateral Provider establishes the Collateral in the interests of the Noteholders and under the name of the Collateral Agent (as the holder of the Collateral (pledgee)) in accordance with these Terms of the Notes Issue to secure the Notes. The Collateral Agent does not have any obligation:

- (a) to take any action (including, without limitation, to commence legal proceedings, compulsory enforcement proceedings, bankruptcy proceedings or any other proceedings) with the purpose to satisfy any claims arising under these Terms of the Notes Issue in connection with any assets of the Issuer, except for enforcing the Collateral in accordance with these Terms of the Issue and the Collateral Agreements upon the Collateral becoming enforceable and receiving the relevant instructions from the Majority Noteholders;

- (b) to ensure the existence, enforceability or validity of the Collateral or to preserve the Collateral or its value or to assess any rights arising from or relating to the Collateral (except for the validity of the Collateral after its establishment to the extent within the control or sphere of influence of the Collateral Agent and to the extent within the scope of its obligations under these Terms of the Notes Issue);
 - (c) to inform the Noteholders or the Issuer about any circumstances relating to the Collateral except to the extent such obligation to provide information is explicitly set forth in the Terms of the Notes Issue; and
 - (d) to provide any advice to the Noteholders in legal, accounting, tax or other matters for free.
- 3.2.10.3. The Noteholders shall not have any independent power to enforce the Collateral or to exercise any rights or powers arising under the Collateral Agreement. Noteholders may exercise their rights in relation to the Collateral only through the Collateral Agent pursuant to these Terms of the Notes Issue.
- 3.2.10.4. Upon the performance of its obligations and exercising its rights, the Collateral Agent shall act at its own discretion in the interests and on the account of the Noteholders collectively, and generally (and not any particular Noteholder) without having any independent interests of its own (for the avoidance of doubt, the Collateral Agent has the right to withhold the proceeds necessary for satisfying the fees, costs, expenses, damages and claims of the Collateral Agent in accordance with Clause 3.2.10.10 of these Terms of the Notes Issue) and without any obligation to consider any interests of the Issuer and without any right of the Issuer to give any instructions to the Collateral Agent. In particular, in accordance with these Terms of the Notes Issue the Collateral Agent shall be entitled to decide at its sole discretion as to what would be in the best interests of the Noteholders upon failure to obtain instructions from the Majority Noteholders. However, the Collateral Agent shall not start the enforcement of the Collateral without instructions provided by the Majority Noteholders described in Clause 3.2.11.4(b) of these Terms of the Notes Issue.
- 3.2.10.5. The Collateral Agent is not a party to the legal relationship between the Issuer and the Noteholders and is under no circumstances liable for the performance of the obligations of the Issuer or impossibility to enforce the Collateral in accordance with these Terms of the Notes Issue and the Collateral Agreements or any restrictions or delays thereof.
- 3.2.10.6. Upon the performance of its obligations and exercising of its rights hereunder, the Collateral Agent shall have the right at its own cost to use the services of third parties and to appoint third-party representatives (including, during the performance of its tasks and acts as stipulated in the Terms of the Notes Issue and the Collateral Agreement). In case of utilization of the services of third parties and/or appointment of third-party representatives, the Collateral Agent shall evaluate and appoint only reputable third parties having professional expertise for the fulfilment of the tasks and acts as stipulated in these Terms of the Notes Issue. In case of use of the services of third parties and/or appointment of third-party representatives, the Collateral Agent shall also ensure: (i) no conflict of interest exists in respect to the Issuer and the Majority Noteholders; (ii) the fees, costs and expenses of such third-party services are at a reasonable market price; (iii) the fees, costs and expenses for using the services of third parties and/or appointment of third-party representatives would not exceed costs, fees and expenses of the Collateral Agent if the latter would perform its obligations under these Terms of the Notes Issue, the Collateral Agreements and the Collateral Agent

Agreement on its own; and (iv) it remains the duty and obligation of the Collateral Agent to perform its obligations under the these Terms of the Notes Issue and the Collateral Agent Agreement and not of the appointed third-party. In case the use of services of third parties or appointment of third-party representatives is required for the fulfilment of obligations arising from these Terms of the Notes Issue, including the Collateral Agreement, Clause 3.2.10.10 of the Terms of the Notes Issue is applicable. The Collateral Agent shall not be responsible for the losses and damage caused by the acts and omissions by third parties.

- 3.2.10.7. At the request of the Collateral Agent, the Noteholders shall provide the Collateral Agent with any information required for the purposes of identification of the Noteholders and/or for the performance of other obligations arising from applicable laws and regulations.
- 3.2.10.8. At the request of the Collateral Agent, the Issuer shall provide the Collateral Agent with an updated list of Noteholders specifying the outstanding Nominal Value of the Notes each of them is holding and their latest known email addresses if such information is available.
- 3.2.10.9. The Collateral Agent is not liable for any circumstances relating to or affecting the validity of the Collateral that are outside the control or sphere of influence of the Collateral Agent.
- 3.2.10.10. The Collateral Agent shall have the right to receive fees from the Issuer and to be compensated by the Issuer for the costs relating to the performance of its obligations under these Terms of the Issue and the Collateral Agreements in accordance with the Collateral Agent Agreement and shall have the right to withhold the performance of its duties and obligations in case of delay of payment of the relevant fees and costs. As regards the costs, the Issuer shall compensate to the Collateral Agent also all payments made by the Collateral Agent to third parties for the purposes of establishment, amendment, termination and enforcement of the Collateral in accordance with the Terms and the Collateral Agreement (including, without limitation, state fees and taxes, other fees and payments established by laws and regulations, costs and expenses incurred by the Collateral Agent), as well as all damages incurred by the Collateral Agent in relation to the same.
- 3.2.10.11. Notices and documents to the Collateral Agent shall be valid only if made and forwarded in writing either by post or e-mail by using the contact details set forth in these Terms of the Notes Issue. All notices of the Noteholders to the Collateral Agent shall be sent in writing (letter and email) to the Collateral Agent and copied to the Issuer and the Arranger. If the Collateral Agent has doubts that a notice from the Noteholders has not been sent to the Issuer, then the Collateral Agent shall immediately forward such notice to the Issuer.
- 3.2.10.12. The Collateral Agent has the right to terminate the Collateral Agent Agreement in case: (a) the Collateral described in Clause 3.2.7 of these Terms of the Notes Issue has not been established within the relevant term stipulated in Clause 3.2.11.1 of these Terms of the Notes Issue; and/or (b) the Collateral Agent withdraws from performance of the tasks set out in these Terms of the Notes Issue on the grounds set out in Clause 3.2.11.13 or 3.2.11.15. of these Terms of the Notes Issue. Fees and payments already paid to the Collateral Agent shall not be refunded in the event of termination of this Collateral Agent Agreement.

3.2.10.13. The Issuer has the right to terminate the Collateral Agent Agreement in case the Issuer decides not to proceed with the Notes issue and/or if the Collateral Agent allows gross negligence/malicious intent in exercising their rights. A new collateral agent must be designated by the Issuer who must take over the obligations of the Collateral Agent.

3.2.11. Establishment, Release and Enforcement of the Collateral

- 3.2.11.1. For the purpose of constituting security for the due and timely payment, discharge and performance of the Notes, the Collateral shall be established in the interests of Noteholders and under the name of the Collateral Agent (as the holder of the Collateral (pledgee)) under the Collateral Agreement which, in legal terms, serves as security for the Notes of the Issuer towards the Collateral Agent. The Issuer shall ensure the Collateral Providers will conclude the relevant Collateral Agreements or amend the existing Collateral Agreements to secure the Notes with the Collateral Agent and ensure the respective Collateral is registered in the Register within 90 (ninety) calendar days from the Issue Date. If a Promissory Note (or similar document of a technical nature) is required to register the respective Collateral, the Issuer and the Collateral Agent shall conclude such Promissory Note in the form suitable to the Register. For the avoidance of doubt, a Promissory Note does not constitute an independent or separate claim and the Collateral Agent may demand payment of any sum under a Promissory Note only in the amount and to the extent such equivalent sum has become due and payable to Noteholders under these Terms of the Notes Issue. For the avoidance of doubt, a Promissory Note is required only if the respective Collateral has not been registered in the Register within 90 (ninety) calendar days from the Issue Date due to refusal of the Register to register the Collateral.
- 3.2.11.2. The Issuer shall provide written confirmation on the registration of the Collateral in the Register to the Collateral Agent within 3 (three) Business Days after registration has taken place.
- 3.2.11.3. By subscribing to the Notes, each of the Noteholders acknowledges and confirms the Issuer and Subsidiaries may, within their ordinary course of business sell their assets.
- 3.2.11.4. The Collateral Agent shall take all actions that the Collateral Agent as the holder of the Collateral may reasonably take with the purpose to enforce the Collateral according to the procedure provided for in the Collateral Agreement in case:
- (a) the Notes are not performed in accordance with these Terms of the Notes Issue which the Collateral Agent has been duly informed of in accordance with Clause 3.2.11.7 of these Terms of the Notes Issue; and
 - (b) The Majority Noteholders have instructed the Collateral Agent in writing to enforce the Collateral (for the avoidance of doubt, the Majority Noteholders have such right only if the Notes are not performed in accordance with these Terms of the Notes Issue, and the Majority Noteholders have to specify in their instructions to enforce the Collateral which obligation(s) has been breached pursuant to these Terms of the Notes Issue).
- 3.2.11.5. If the Majority Noteholders in accordance with Clause 3.2.11.4(b) of these Terms of the Notes Issue have instructed the Collateral Agent to enforce the Collateral, the Collateral Agent shall immediately inform (letter or email) all Noteholders.
- 3.2.11.6. The Majority Noteholders have the right to instruct the Collateral Agent to take specific actions to enforce the Collateral according to the procedure provided for in the

Collateral Agreement in case the conditions set out in Clause 3.2.11.4. of these Terms of the Notes Issue have been fulfilled. The Collateral Agent has a right (but not an obligation) to refuse to follow such instructions until the Majority Noteholders have confirmed such instructions.

- 3.2.11.7. The Collateral Agent may assume that no violation of the Notes has occurred unless the Collateral Agent has received a written notice (letter or email) to the contrary from the Issuer or the Majority Noteholders. For the avoidance of doubt, the Majority Noteholders shall have such right only if the Notes is not performed in accordance with the respective terms and conditions set out in these Terms of the Notes Issue.
- 3.2.11.8. The Collateral Agent shall be entitled (but is not under any circumstances obliged) to request instructions, or clarification of any direction, from the Noteholders as to whether, and in what manner, the Collateral Agent should exercise or refrain from exercising any rights, powers and discretions with regard to the enforcement of the Collateral. Upon such request, the Noteholders shall give their instructions or clarifications to the Collateral Agent within the time period specified in the Collateral Agent's request for instructions or clarifications, such a time period is to be at least 2 (two) Business Days. The Collateral Agent may refrain from acting unless and until Majority Noteholders have provided the Collateral Agent with requested instructions or clarifications.
- 3.2.11.9. If, under Clause 3.2.11.4(b) and 3.2.11.7. of these Terms of the Notes Issue or following the request of the Collateral Agent submitted under Clause 3.2.11.8. of these Terms of the Notes Issue, the Majority Noteholders have duly instructed the Collateral Agent, the Collateral Agent is obligated to comply with these instructions. Any such instructions from the Majority Noteholders will be binding on all Noteholders of the Issue. The Collateral Agent shall not be liable for any consequences or damages that result from complying with the instructions.
- 3.2.11.10. Notwithstanding Clause 3.2.11.9. of these Terms of the Notes Issue, the Collateral Agent may refrain from doing anything which in its opinion will or may be contrary to the Terms of the Notes Issue, the Collateral Agreement, the Collateral Agent Agreement or applicable laws and regulations or otherwise render it liable to any person and may do anything which is in its opinion necessary to comply with such legislation. The Collateral Agent may refrain from acting in accordance with the instructions of the Majority Noteholders until it has received such indemnification or security as it may require for all costs, claims, losses, expenses (including but not limited to legal fees) and liabilities which it will or may expend or incur in complying with such instructions.
- 3.2.11.11. Without prejudice to Clauses 3.2.11.8., 3.2.11.9., 3.2.11.10. of these Terms of the Notes Issue, the Collateral Agent may (but is not obligated to) act (or refrain from acting) as it in its own discretion reasonably believes is in the best interests of the Noteholders. The Collateral Agent shall not be liable to Noteholders for acting (or refraining from acting) as described in these Terms of the Notes Issue or in accordance with the instructions of the Noteholders and/or Legal Acts.
- 3.2.11.12. The Collateral Agent shall not be liable to Noteholders for the outcome of the enforcement of the Collateral, provided the Collateral Agent has acted in accordance with these Terms of the Notes Issue and the Collateral Agreement.
- 3.2.11.13. The Collateral Agent shall have the right to unilaterally terminate the performance of its duties described in these Terms of the Notes Issue in accordance with the Collateral

Agreements and the Collateral Agent Agreement (including, without limitation, terminate the enforcement of the Collateral) in case:

- (a) in the reasonable opinion of the Collateral Agent: (a) (further) enforcement of the Collateral on reasonable terms is not possible or feasible due to the commencement of insolvency or reorganisation proceedings of the Issuer or the relevant Collateral Provider or enforcement of the Collateral on reasonable terms may not be possible for any other reason; or (b) the estimated proceeds of the enforcement of the Collateral will not be sufficient to cover the claims under Clause 3.2.12.1(a)(a) and/or
- (b) in the opinion of the Collateral Agent, the Collateral (or the substantial part thereof) ceases to exist for any reason.

3.2.11.14. In order to exercise its right of termination under Clause 3.2.11.13. of these Terms of the Notes Issue, the Collateral Agent shall submit a respective written notice (letter or email) stating the basis of exercising the right of termination to the Issuer and all of the Noteholders. The duties and obligations of the retiring Collateral Agent shall be deemed to have terminated from the moment when the respective written notice is submitted to the Issuer and all of the Noteholders. For the avoidance of doubt, under the Legal Acts the relevant Collateral Agreement and/or the establishment and discharge of the Collateral, the Collateral Agent may perform certain actions to release (discharge) the Collateral as a result of the termination under Clause 3.2.11.13.

3.2.11.15. The Collateral Agent shall have the right to resign due to reasons other than stated in Clause 3.2.11.13. of these Terms of the Notes Issue by submitting a respective written notice (letter or email) to the Issuer and all of the Noteholders. The duties and obligations of the Collateral Agent shall be deemed to have terminated upon the appointment of a successor Collateral Agent and acceptance by such appointment of the successor Collateral Agent and the execution of all necessary documentation to effectively substitute the retiring Collateral Agent.

3.2.11.16. No later than 3 (three) months after the receipt of the relevant notice under Clause 3.2.11.13 or Clause 3.2.11.15. of these Terms of the Notes Issue by the Issuer a successor Collateral Agent must be designated by the Issuer and the Majority Noteholders, who must take over the obligations of the retiring Collateral Agent.

3.2.11.17. If a successor Collateral Agent has not been appointed within the term set out in Clause 3.2.11.16. of these Terms of the Notes Issue, the duties and obligations of the retiring Collateral Agent shall be deemed to have terminated. For sake of clarity, the retiring Collateral Agent shall be stated as pledgee in the Register until the successor Collateral Agent has been appointed and registered as pledgee of the Collateral in the Register.

3.2.11.18. The Collateral Agent shall evaluate that no conflict of interest exists with regard to the Issuer and/or the Noteholders and, the existence of conflict of interest shall not prevent the Collateral Agent from fulfilling its obligations to the extent and scope as described in these Terms of the Notes Issue and as provided in the in the Collateral Agreements and in the Collateral Agent Agreement.

3.2.12. Application of the Proceeds from Enforcement of the Collateral

3.2.12.1. The proceeds from the enforcement of the Collateral shall be applied in the following order of priority:

- (a) as the first priority: to the satisfaction and payment of all fees, costs and expenses and damages (including, without limitation, state duties, notary fees, valuation costs and fees, costs and expenses of third parties engaged in by the Collateral Agent pursuant to conditions set out, *inter alia*, in Clauses 3.2.10.6 and 3.2.10.10) related to performance of its duties by, or otherwise payable to, the Collateral Agent under these Terms of the Notes Issue, the Collateral Agent Agreement and the Collateral Agreement securing the Issuer's obligations relating to the Issue, including but not limited to the establishment, amendment, termination and enforcement of the Collateral incurred by the Collateral Agent or any of the third parties engaged by the Collateral Agent, provided that the fees, costs and expenses have occurred on a reasonable market price and pursuant to conditions specified in Clause 3.2.10.6 and/or Clause 3.2.10.10;
 - (b) as the second priority (after full satisfaction, payment and deduction of all claims and amounts set forth in Clause 3.2.12.1(a) of these Terms of the Notes Issue), in payment of the claims of the Noteholders arising under these Terms of the Notes Issue, including but not limited to the claims arising from the Notes.
- 3.2.12.2. The Collateral Agent shall withhold the proceeds necessary for satisfying the fees, costs, expenses, damages and claims of the Collateral Agent specified in Clause 3.2.12.1(a) of these Terms of the Notes Issue and transfer the remaining proceeds to the Noteholders for satisfying the claims under Clause 3.2.12.1(b) of the Terms of the Notes Issue. The Collateral Agent shall return the proceeds from the enforcement of the Collateral remaining after satisfying all claims set forth in Clause 3.2.12.1 of the Terms of the Notes Issue to the relevant Collateral Provider.
- 3.2.12.3. In case the proceeds remaining after covering the fees, costs, expenses, damages and claims under Clause 3.2.12.1(a) of these Terms of the Notes Issue do not cover the claims of the Noteholders under Clause 3.2.12.1(b) of these Terms of the Notes Issue in full, these claims of the Noteholders shall be satisfied pro rata.
- 3.2.12.4. The Collateral Agent is not obliged to pay to the Noteholders or any other individuals any interest on the proceeds from the enforcement of the Collateral (whether deposited or not).
- 3.2.12.5. In case the Collateral Agent is required, under applicable laws, to withhold or pay any taxes in connection with payments to be made by the Collateral Agent hereunder, the amount to be paid by the Collateral Agent shall be reduced by the amount of respective taxes and only the net amount shall be paid by the Collateral Agent.

3.2.13. Rights and restrictions connected with the Notes Issue

Any of the Noteholders have a right to receive Coupon and Nominal Value payments in accordance with the Clause 3.2.14 "Coupon payments" and 3.2.15 "Procedure of the Notes repayment", as well as exercise other rights fixed in these Terms of the Notes Issue and Latvian Legal Acts.

The Issuer has the right to purchase the Notes on the secondary market directly from the Noteholders. The Notes that are purchased by the Issuer are held in Issuer's financial instruments' custody account and the Issuer has the right to sell the purchased Notes to Potential Investors and other Noteholders. The Issuer cannot cancel the purchased Notes held in the Issuer's financial instruments' custody account, therefore decreasing the size of the Notes issue.

The Notes owned by the Issuer and/or its Related Parties are not eligible to participate in the voting in accordance with these Terms of the Notes Issue.

3.2.14. Coupon payments

Coupon rate

The Coupon rate for the Notes is 6% (six per cent) per annum and is fixed until the Maturity Date.

Coupon payment procedure

Coupon payments are made on each Coupon Payment Date. Coupon payments are made once a month on the last Business Day of the month. The first Coupon payment date is 31 December 2021, and the last Coupon payment date is 30 November 2024.

The Coupon record date is the 5th (fifth) Business Day prior to the Coupon Payment Date. At the end of the Coupon record date the list of the Noteholders, who will be eligible for the Coupon payments, will be fixed. Coupon payment shall be made to the Noteholders, in accordance with the relevant Noteholders' list, on each Coupon Payment Date for the preceding Coupon period.

The Issuer pays the Coupon through the intermediary of Nasdaq CSD and in accordance with the applicable Nasdaq CSD regulations, which regulate the procedure for paying income from debt securities. The Nasdaq CSD regulations applicable on the day of preparation of the Terms of these Notes Issue are Nasdaq CSD Rulebook and Corporate Action Service description.

If the Coupon Payment Date of the Notes is not a Business Day, the Issuer will pay the Coupon payment on the first Business Day after the Coupon Payment Date of Notes.

If the Issuer has failed to make Coupon payments in accordance with the deadlines specified in the Terms of the Notes Issue, the Noteholders shall have the right to submit claims regarding the payment of the Coupon but not earlier than after 10 (ten) Business Days following the payment date of the relevant Coupon.

Coupon calculation

Monthly Coupon payments, starting from 31 December 2021, are determined according to the following formula:

$CPN = F * C / 12$ or $CPN\% = C/12$, where:

CPN – the amount of the Coupon payment in EUR per Note;

F – Nominal Value of one Note;

C – annual Coupon rate (%).

The authority performing the calculation is not required to calculate the Coupon payment, since the annual rate of the Coupon for the relevant period is fixed in advance.

3.2.15. Procedure of the Notes repayment

The Nominal Value of one Note is EUR 1,000.00 (one thousand Euro) and the Issuer will repay the Nominal Value of Notes at Maturity Date, which is 30 November 2024.

The Issuer shall pay the Nominal Value in accordance with Nasdaq CSD intermediary and applicable Nasdaq CSD regulations. The Nasdaq CSD regulations applicable on the day of preparation of these Terms of the Notes Issue are the Nasdaq CSD Rulebook and Corporate Action Service Description. The Nominal Value will be paid on the Maturity Date. The list of the Noteholders eligible to receive the Nominal Value will be fixed at the end of the previous Business Day before Maturity Date.

If the Maturity Date of the Notes is not a Business Day, the Issuer will pay the Nominal Value of the Notes on the next Business Day after the Maturity Date.

If the Issuer has failed to make Nominal Value payment in accordance with the deadlines specified in these Terms of the Notes Issue, the Noteholders shall have the right to submit claims regarding the repayment of the Nominal Value not earlier than after 10 (ten) Business Days following the Maturity Date.

3.2.16. Early redemption at the option of the Issuer (call option)

The Issuer shall be entitled to full early redemption (call option) starting on every Coupon Payment Date:

- (a) from 30 November 2022 (including), until 31 July 2024 (including) by paying 101% (one hundred and one per cent) of the Nominal amount plus accrued and unpaid interest;
- (b) from 31 August 2024 (including), until 30 November 2024 (including) by paying 100% (one hundred per cent) of the Nominal amount plus accrued and unpaid interest;

The Issuer can carry out call option only in full amount of total outstanding Notes.

If the Issuer takes a decision on early redemption of the Notes, the Issuer shall notify the Noteholders at least 20 (twenty) Business Days prior to the redemption date of the Notes with intermediation of Nasdaq Riga information system.

If the Issuer redeems the Notes, the Issuer will pay the redemption payment in accordance with Nasdaq CSD intermediary and applicable Nasdaq CSD regulations. The Nasdaq CSD regulations applicable on the day of preparation of these Terms of the Notes Issue are the Nasdaq CSD Rulebook and Action Service Description. The list of the Noteholders eligible to receive the redemption payment will be fixed at the end of the previous Business Day before the redemption payment date.

3.2.17. Early redemption at the option of the Noteholders (put option)

The Noteholders shall have a right to early redemption of the Notes (put option) on 30 November 2023, whereas:

- (a) the Noteholders have the right to require the Issuer to purchase all of such Noteholders' Notes at a price equal to 100% (one hundred per cent) of the Nominal value;
- (b) if the Noteholders decide to execute the put option, then it shall send a notice to the Issuer or to its appointed Agent regarding execution of its put option not earlier than 120 (one hundred twenty) calendar days, but not later than 90 (ninety) calendar days prior put option execution date. Such notice is mailed by post or via e-mail or delivered to the Issuer and the record date;
- (c) any Note accepted for payment will cease to accrue interest after a payment date unless the payments are not paid, and any Notes or part thereof not tendered will continue to accrue interest;
- (d) The process shall be executed in accordance with the Nasdaq CSD intermediary and applicable Nasdaq CSD regulations. The regulations applicable on the day of preparation of the Terms of the Issue are the Nasdaq CSD Rulebook and Action Service description.

To exercise the put option described in this Clause, the Noteholders must submit to the Issuer a duly signed and completed notice of exercise in the form acceptable by the Issuer. For the sake of clarity, if notice is not received by the Issuer from all or some Noteholders, then it is deemed that put option is not exercised by all or some Noteholders, as the case may be. No option so exercised may be withdrawn without the prior consent of the Issuer. Noteholders eligible to receive the

redemption payment will be fixed at the end of the record date, which will be the previous Business Day before the redemption payment date.

3.2.18. Early redemption at the option of the Noteholders due to Change of Control (put option)

In case a Change of Control has occurred, the Issuer has the obligation to send a notice to each of the Noteholders no later than the date that is 20 (twenty) Business Days after the Change of Control has occurred, stating:

- (a) the Change of Control has occurred or may occur and that such Noteholders have the right to require the Issuer to purchase all of such Noteholders' Notes at a price equal to 101% (one hundred and one per cent) of the Nominal value plus accrued and unpaid interest;
- (b) stating the repurchase date, which shall be not earlier than 10 (ten) Business Days and not later than 20 (twenty) Business Days from the date such notice is mailed by post or *via* e-mail or delivered to Noteholders and the record date;
- (c) stating any Note accepted for payment pursuant to a Change of Control will cease to accrue interest after a Change of Control payment date unless the Change of Control payments is not paid, and any Notes or part thereof not tendered will continue to accrue interest;
- (d) describing the circumstances and relevant facts regarding the transaction or transactions that constitute a Change of Control;
- (e) describing the procedures determined by the Issuer that the Noteholders must follow to have Notes repurchased; and
- (f) if such notice is sent prior to the occurrence of a Change of Control, stating the offer is conditional on the occurrence of a Change of Control.

To exercise the Change of Control put option, the Noteholders must submit to the Issuer a duly signed and completed notice of exercise in the form provided by the Issuer within the Change of Control put period provided by the Issuer in the said notice. If no response from the Noteholders have been received within the designated time period, it is concluded the Noteholders will not execute the put option. No option so exercised may be withdrawn without the prior consent of the Issuer.

3.2.19. Early redemption (event of default)

The Noteholders have the right to demand early redemption of Notes in case of occurrence of the events of default in accordance with Clause 4.2 "Event of default".

3.2.20. Accrued interest calculation

The first Coupon starts to accrue on 30 November 2021, which is the First Settlement Date of the Notes issue.

The accrued Coupon is calculated presuming there are 360 (three hundred and sixty) days in one year (day count convention – "European 30/360"). Accrued interest between Coupon Payment Dates shall be calculated as follows:

$AI = F * C / 360 * D$, where:

AI – accrued interest of one Note;

F – Nominal Value of one Note at the beginning of the relevant Coupon calculation period, *i.e.*, the initial Nominal Value at the time of the issue of a Note, as may be reduced by the

redemption or repurchase amounts paid during the previous periods in accordance with these Terms of the Notes Issue;

C – annual Coupon rate (%);

D – the amount of days from the beginning of the Coupon accrual period according to European 30/360 day count method.

3.2.21. Representation of the Noteholders

The Collateral Agent holds the Collateral on behalf of the new and existing Noteholders and is authorized to act with the Collateral in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement.

Noteholders have no rights to act with the Collateral directly, yet at the same time there are no restrictions set for Noteholders' right to create and/or authorize an organization/person that represents the legal interests of all Noteholders or part thereof.

In case of the insolvency of the Issuer, Noteholders have the right to represent their own interests in creditors' meetings. The Noteholders will have equal rights for satisfaction of their claims with other creditors in the same claims' group.

3.2.22. Decisions of the Issuer on the Notes issue

On 17 November 2021, the Issuer's shareholders passed the decision to issue secured debt securities in the amount of up to EUR 3,000,000.00 (three million Euro) and to authorize the management board to sign all the documents related to the execution of the shareholders' decision to issue the Notes.

On 17 November 2021, the Issuer's management board passed the decision to issue secured debt securities (Notes) in the amount of up to EUR 3,000,000.00 (three million Euro) with a coupon rate of 6% (six per cent) and maturity of up to 3 (three) years.

3.2.23. First Settlement Date of the Notes Issue

The First Settlement Date (Issue Date) of the Notes issue is 30 November 2021, on which the Coupon starts to accrue.

3.2.24. Restrictions on free circulation of the Notes

The Notes are freely transferable securities and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under the Legal Acts.

Any Noteholder wishing to transfer or offer the Notes must ensure any offering related to such a transfer or offer would not be qualified as public offering in the essence of the applicable law. According to these Terms of the Notes Issue, it is the obligation and liability of the Noteholders to ensure that any offering of the Notes does not fall under the definition of public offering under the applicable law.

4. Special Conditions

4.1. Disclosure of information

- 4.1.1. Up until the Maturity Date, the Issuer and the Group shall publish all the information required by the covenants, rules of Nasdaq Riga and regulatory enactments.
- (a) For so long as the Notes are not admitted to trading on First North, all notices and reports to the Noteholders shall be published on the Group's website (www.longo.group).
 - (b) As of the date when the Notes are admitted to trading on First North, all notices and reports to Noteholders shall be published on Nasdaq Riga's website, as well as on the website of the Group (www.longo.group). Any notice or report published in such manner shall be deemed to have been received on the same Business Day when it is published.
- 4.1.2. By submitting a subscription order or acquiring the Notes on the secondary market each private individual or legal entity as well as their authorized representatives upon the request of the Collateral Agent, are obliged to disclose to the Collateral Agent all information and documents on these private individuals or the legal entities and as well as their authorized representatives and the Collateral Agent is entitled to receive this information and documents for the purposes of performance of duties of the Collateral Agent. This information and documents also include those documents and information that are necessary to the Collateral Agent in order to fulfil the Collateral Agents obligations regarding AML and Sanctions regulation requirements (e.g., information and documents on the beneficial owner). Noteholders are informed the information indicated in this Clause shall be provided also to the Issuer when requested in order to fulfil its obligations under these Terms of the Notes Issue.

4.2. Event of Default

If the Issuer receives a written notification from the Noteholders representing at least 10% (ten per cent) of the outstanding Notes issue, stating the Notes owned by the relevant Noteholders have become due and payable, at any time after the event of default has occurred (and as long as the event of default exists), the Issuer shall pay the Nominal value of Notes along with the accrued Coupon and contractual penalty in accordance with Clause 4.3 "Contractual penalty" within 10 (ten) Business Days after the receipt of the notification.

If an event of default has occurred and the Issuer is unable to redeem or purchase the Notes in accordance with this Clause, the Issuer is obliged to send the Noteholders and the Collateral Agent a written notification within 20 (twenty) Business Days after the event of default has occurred.

Each of the events or circumstances set out in below shall constitute an event of default:

4.2.1. Non-payment

The Issuer has failed to pay out any amount payable by it under these Terms of the Notes Issue when such an amount is due for payment, unless its failure to pay is caused by administrative or technical error in payment systems or the Nasdaq CSD and payment is made within 10 (ten) Business Days following the original due date. The Noteholders shall have the right to submit claims regarding failure to pay amount due not earlier than 10 (ten) Business Days after the date of the relevant payment.

4.2.2. Breach of covenants

The Issuer or the Group has violated the conditions of the Clause 5 "Covenants" and has failed to remedy such violation as according to the Clause 4.2.3 "Covenant cure".

4.2.3. Covenant cure

- (a) The Issuer and shareholders of the Group may cure or prevent a breach of the financial covenants in Clauses 5.1.1 - 5.1.3 (and any Event of Default arising as a result thereof) if, for Clause 5.1.2 and Clause 5.1.3 prior to or within 90 (ninety) calendar days and for Clause 5.1.1 prior 180 (one hundred eighty) calendar days of the earlier of: (i) the date on which the relevant Financial Report is to be published pursuant to these Terms of the Notes Issue; and (ii) the date on which the Financial Report was in fact published pursuant to these Terms of the Notes Issue for any Relevant Period in which such failure to comply was (or would have been) first evidenced, the Group received the cash proceeds of new shareholder injections from the shareholders of the Group (the "Equity cure"), in an amount at least sufficient to ensure the financial covenants set forth under 5.1.1 - 5.1.3 would be complied with if tested again as at the last date of the same Relevant Period on the basis any Equity Cure to be provided shall be included for the Relevant Period as if provided immediately prior to the last day of such Relevant Period. However, covenant cure for financial covenant in Clause 5.1.1 shall be allowed only once during the term of these Terms of the Notes Issue.
- (b) Any new equity and/or Subordinated Debt provided in respect of any Relevant Period shall be deemed to have been provided immediately prior to the last date of such period and shall be included (without double counting) in all relevant covenant calculations until the date it was deemed provided falls outside any subsequent Relevant Period.
- (c) If after the equity adjustment the requirement of the relevant financial covenant is met, then the requirement thereof shall be deemed to have been satisfied as at the relevant original date of determination of any default, Event of Default, occasioned thereby shall be deemed to have been remedied for the purposes of these Terms of the Notes Issue.
- (d) Additionally, the Issuer and the shareholders of the Group may cure or prevent breach of financial covenant set forth under Clause 5.1.3 by way of providing additional collateral in a manner as described under the Clause 3.2.8.

4.2.4. Cross default

If for Issuer or any of the Guarantors representing more than 20% (twenty per cent) of either: (a) the total assets of the Group on a consolidated basis (for the avoidance of doubt, excluding any intra-group transactions); or (b) the EBITDA of the Group on a consolidated basis for the Relevant Period:

- (a) any Financial Indebtedness is neither paid when due nor within any applicable grace period;
- (b) any Financial Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity, as a result of an event of default (however described);
- (c) any commitment for any Financial Indebtedness is cancelled or suspended by a creditor, as a result of an event of default (however described);
- (d) any creditor becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity, as a result of an event of default (however described); or
- (e) any security securing Financial Indebtedness over any asset is enforced by secured creditor.

Provided, however, the aggregate amount of such Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (e) above exceeds a total of EUR 200,000.00

(two hundred thousand Euro) (or the equivalent thereof in any other currency); provided it does not apply to any Financial Indebtedness owed to the Subsidiaries of the Group or Related Parties, or Subordinated Debt and other than (a) proceedings or petitions which are being disputed in good faith and are discharged, stayed or dismissed within 90 (ninety) calendar days of commencement or, if earlier.

4.2.5. Insolvency

If the Issuer or any of the Guarantors representing more than 20% (twenty per cent) of either: (a) the total assets of the Group on a consolidated basis (for the avoidance of doubt, excluding any intra-group transactions); or (b) the EBITDA of the Group on a consolidated basis for the Relevant Period:

- (a) is declared insolvent or bankrupt by a court of competent jurisdictions or admits inability to pay its debts in case of lawful claims save for claims by Related Parties or claims within Group;
- (b) an application to initiate insolvency or legal protection proceedings or similar proceedings of the Issuer or respective Guarantor or any other proceedings for the settlement of the debt of the Issuer is submitted to the court by the Issuer or the Guarantor.

Other than: (a) proceedings or petitions which are being disputed in good faith and are discharged, stayed or dismissed within ninety (90) calendar days of commencement or, if earlier, the date on which it is advertised; and (b), in relation to the Issuer or any of the Guarantors, solvent liquidations) in relation to: (a) the suspension of payments, winding-up, dissolution, administration or reorganisation (by way of voluntary agreement, scheme of arrangement or otherwise) of any Guarantor or the Issuer; (b) the appointment of a liquidator, receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of any Guarantor or the Issuer or any of its assets; or (c) any analogous procedure or step is taken in any jurisdiction in respect of any Guarantor or the Issuer.

4.3. Contractual penalty

In the case of non-compliance or inadequate compliance with a payment obligation arising from the Notes, the respective Noteholder shall be entitled to require and the Issuer shall be obliged to a pay contractual penalty upon the request of any Noteholder to all the Noteholders that shall accrue from the due date for payment (excluding), to the actual payment date (including) in the amount of 0.1% (zero point one per cent) per day of the relevant outstanding amount.

If the Issuer has failed to make Coupon payments in accordance with the deadlines specified in these Terms of the Notes Issue, the Noteholders shall have the right to submit claims regarding the payment of the Coupon not earlier than after 10 (ten) Business Days following the due date for payment of the relevant Coupon.

If the Issuer has failed to make the Nominal Value payment in accordance with the deadline specified in the Terms of the Notes Issue, the Noteholders shall have the right to submit claims regarding the repayment of the Nominal Value not earlier than after 10 (ten) Business Days following due date for payment of the Nominal Value.

5. Covenants

5.1. Financial covenants

From the Issue Date of the Notes to the date of repayment thereof, the Issuer and the Group shall comply with the following financial covenants:

- 5.1.1. To maintain consolidated Interest Coverage Ratio of at least 2x (two times), calculated for the Relevant Period at the end of each quarter.
- 5.1.2. To maintain consolidated Equity Ratio at least 30% (thirty per cent) calculated for the Relevant Period at the end of each quarter.
- 5.1.3. To maintain Inventory Coverage Ratio for the Collateral Provider of at least 1.5x (one point five times), calculated for the Relevant Period at the end of each quarter.
- 5.1.4. Financial covenants stated in Clauses 5.1.1 to 5.1.3 shall be tested at the end of each quarter and proof of compliance with these covenants shall be included in every Financial Report of the Group.
- 5.1.5. The Issuer shall not pay dividends or make other distribution of profits to its shareholders and/or entities directly or indirectly owned by them in form of a loan, investment or any other distribution until 30 November 2023. Afterwards, if there are any payment of dividends or other distribution to its shareholders then only if complied with following rule (the "Permitted Distribution"):
 - (a) Up to 50% (fifty per cent) of consolidated net profit for the Relevant Period if after such distribution the Equity Ratio, as according to Clause 5.1.2, remains at least 30% (thirty per cent);
 - (b) Up to 75% (seventy-five per cent) of consolidated net profit for the Relevant Period if after such distribution the Equity Ratio, as according to Clause 5.1.2, remains at least 40% (forty per cent);
 - (c) Up to 100% (one hundred per cent) of consolidated net profit for the Relevant Period if after such distribution the Equity Ratio, as according to Clause 5.1.2, remains at least 50% (fifty per cent).

5.2. General covenants

From the Issue Date of the Notes to the date of repayment thereof, the Issuer and the Group shall undertake the following:

- 5.2.1. Not to Change of Control of the Issuer or the Group.
- 5.2.2. To include Notes on First North operated by Nasdaq Riga within 12 (twelve) months after the Issue Date.
- 5.2.3. All existing and future liabilities towards Related Parties must be junior to the Notes issued. For the sake of clarity, such liabilities towards Related Parties are only repayable before the Maturity Date of the Notes if all covenants under these Terms of the Notes Issue are met after the repayment.
- 5.2.4. Not to commence any new type of economic activity outside the scope of Permitted Business except if revenue from such activity does not exceed 5% (five per cent) of consolidated revenue.

- 5.2.5. Not to obtain participation in other companies by investing funds, except if over 51% (fifty-one per cent) participation in this company shall be acquired and the Issuer or its Subsidiaries retains control of a company.
 - 5.2.6. Not to sell, present, change, rent, license, invest, or otherwise transfer into utilization the right to use the trademarks of the Group and/or its Subsidiaries.
 - 5.2.7. Not to initiate or allow initiation of the Issuer's liquidation or similar proceedings and not to reduce the share capital of the Issuer until 31 December 2022 (including). After 1 January 2023, if the Adjusted Equity of the Issuer remains unchanged:
 - (i) shares of the Issuer can be converted between share categories and/or allocated to share premium, and/or
 - (ii) B category shares of the Issuer can be converted to the Subordinated Debt, whereas such debt cannot be repaid or redeemed before Maturity Date of the Notes.
 - 5.2.8. Any transactions with Related Parties should be at Fair Market Value.
 - 5.2.9. To publish consolidated condensed unaudited quarterly reports of the Group with management commentary as per the Accounting Principles by the end of the second month following the end of each respective quarter.
 - 5.2.10. To prepare and publish audited consolidated annual report as per Accounting Principles within 6 (six) months for financial year 2021 and within 4 (four) months for each consecutive financial year.
- 5.3. **Procedure for applying for Noteholders' consent**

The Issuer has the right to request a consent (waiver) of Noteholders to amend the conditions included in these Terms of the Notes Issue (apply for the waiver). However, the Issuer shall have a right to amend the technical procedures relating to the Notes in respect of payments or other similar matters without the consent of the Noteholders, if such amendments are not prejudicial to the interests of the Noteholders. The Collateral Agent may ask for instructions from the Noteholders in respect to the Collateral in the same manner as the Issuer may apply for the consent (waiver) of the Noteholders hereunder.

The amendment of these Terms of the Notes Issue may include the amendment of any conditions, which is not restricted by such characteristics of the Notes as currency, Coupon rate, Coupon calculation method, Coupon and Nominal Value payments, inclusion of Notes to regulated or alternative markets, the Maturity Date and other conditions, unless they contradict applicable Latvian Legal Acts.

The Issuer can apply for the waiver itself or through the intermediary of an Agent. To request a waiver, the Issuer or Agent shall notify the Noteholders directly, or, if Notes are included in First North, *via* the Nasdaq Riga information system, specifying at the least the following information:

- (a) a description of the requested amendment;
- (b) a justification of the necessity of such amendment;
- (c) the date when the list of the Noteholders eligible to grant the waiver (vote) will be fixed;
- (d) the term within which the Noteholders can support or reject the offered waiver;
- (e) instructions concerning notification about the support or rejection of the waiver and the procedure for filling in the voting questionnaire;

- (f) notification the Noteholders willing to grant the waiver offered by the Issuer shall notify the Issuer and Issuer's Agent within the term specified in the application, which is certified by a postal seal, signature on receipt or notification (letter or email) Noteholder's Custodian. If the Noteholders do not notify the Issuer or Issuer's Agent about the approval to grant the waiver within the term specified in the application, the Noteholders shall be deemed as not having granted the waiver;
- (g) contact details of the Issuer and/ or the Issuer's Agent to be used for notifications (telephone number for inquiries, email or address for sending filled in and signed questionnaires, list of representative offices and/ or branches of the Issuer and/or Issuer's Agent where the Noteholders can submit the questionnaires in person);
- (h) other information, including a fee to the Noteholders for approving the waiver (if any).

The list of Noteholders shall be inquired from the Nasdaq CSD as of the date falling to the 5th (fifth) Business Day after the waiver was sent to the Noteholders directly and/or after the relevant announcement of the waiver has been published *via* the Nasdaq Riga information system, if the Notes are included in First North.

The term allowed to Noteholders for deciding upon refusal to grant the waiver to the Issuer may not be shorter than 14 (fourteen) calendar days after the waiver was sent to the Noteholders directly and/or after the relevant announcement of the waiver has been published *via* the Nasdaq Riga information system, if the Notes are included in First North.

The Noteholders shall submit signed questionnaires with their decision to the Issuer or Issuer's Agent by a deadline set in the application of the waiver. The waiver is deemed to be granted, if Noteholders owning more at least 50% (fifty per cent) of the outstanding Notes issue (excluding Notes owned by the Issuer, direct and/or indirect shareholders and Related Parties from the total outstanding amount of Notes) have voted for granting the waiver. The Notes owned by the Issuer and Related Parties are not eligible to participate in the voting.

The Issuer or Agent shall count the received votes and notify the Noteholders of the results of the voting within 1 (one) Business Day after the deadline for submitting the questionnaires by sending relevant notification to the Noteholders directly and/or by publishing relevant announcement *via* the Nasdaq Riga information system, if the Notes are included in the First North.

If the accepted changes refer to specifications of the Notes and/or Coupon calculation method, as well as procedure of Coupon payments and/ or repayment of the Nominal Value, the Issuer shall inform the Nasdaq CSD on the mentioned changes according to the regulation determined in the Nasdaq CSD rules.

If the Issuer offers Noteholders a fee for approving the waiver and the waiver is granted, the Issuer transfers the fee amount to the account stated by the Noteholders in the questionnaire not later than 30 (thirty) calendar days after the waiver comes into force.

5.4. Force majeure and limitation of liability

The Issuer shall be entitled to postpone the fulfilment of its obligations under these Terms of the Notes Issue in case the performance is not possible due to continuous existence of any of the following circumstances (a "Force Majeure Event"):

- (a) action of any authorities, war or threat of war, rebellion or civil unrest;
- (b) disturbances in postal, telephone, or electronic communications which are due to circumstances beyond the reasonable control of the Issuer and that materially affect the operations of the Issuer and the Group;

- (c) any interruption of or delay in any functions of measures of the Issuer as a result of fire, frost or other similar disaster;
- (d) any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of the Issuer; or
- (e) any other similar force majeure hindrance.

In case of occurrence of a Force Majeure Event, the Issuer's fulfilment of the obligations may be postponed for the period of the existence of such respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that the Issuer shall put all best efforts to limit the effect of the Force Majeure Event and to resume the fulfilment of its obligations as soon as possible.

6. Taxes

6.1. Notice

This summary is of general nature and should not be considered a legal or tax advice. This clause does not contain full and complete information on all the taxes that relate to investment in the Notes. Tax rates and conditions for paying taxes may change during the life of the Notes. Potential Investors should consult with their own tax advisors with respect to their particular circumstances and the effects of the Latvian or foreign tax laws to which they may be subject to.

6.2. Definition of residents and non-residents

An individual is considered resident of Latvia for tax purposes if his or her permanent place of residence is the Republic of Latvia, or he or she stays in the Republic of Latvia for more than 183 (one hundred and eighty-three) days within any 12 (twelve) month period; or he or she is a citizen of the Republic of Latvia and is employed abroad by the government of the Republic of Latvia. If an individual does not meet any of the above-mentioned criteria, he or she is considered a non-resident for tax purposes.

Any legal entity is considered resident of Latvia for tax purposes if it is or should be established and registered in the Republic of Latvia according to the Latvian legislation. Other legal entities are considered non-residents for tax purposes.

To receive any reduction for the tax rate applicable on interest (coupon) income according to the provisions of the Double Tax Treaty concluded between the Republic of Latvia and any other relevant country, the Noteholders should supply a tax residency certificate originals to the Issuer. The applicable reductions will be applied from the moment of receiving the certificate and for the period stipulated in the certificate. For the purposes of exchanging documents, the Noteholders should contact the Issuer *via* information provided on the Issuer's website and/or the Nasdaq Riga website.

Table 1 – Tax consequences in the Republic of Latvia regarding the income derived from Notes that are issued by a legal entity registered in the Republic of Latvia (not being a credit institution) effective as of 1 January 2021:

Legal status of income beneficiary	Notes that are not in the Public Circulation		Conditions
	Interest tax rate	Capital gains tax rate	
Individual resident of the Republic of Latvia	20%	20% ¹	<p>20% tax from the interest (coupon) income is withheld and transferred to the State budget by an Issuer of the Notes, if it is registered in the Republic of Latvia (Latvia).</p> <p>¹ – Capital gains from a sale of Notes are considered equivalent to an interest income and taxed at 20% rate in Latvia. Self-assessment and payment of a tax on capital gains [<i>i.e.</i>, profits] in Latvia is performed by a beneficiary of capital gains – a resident individual filing the Annual Income Statement.</p>

<p>Company resident of Latvia</p>	<p>deferred: 20/80 of the beneficiary's net profit distributed (equals to 20% of the gross profit)</p>	<p>deferred: 20/80 of the beneficiary's net profit distributed (equals to 20% of the gross profit)</p>	<p>Interest (coupon) income and a capital gain from the Notes not being in the Public Circulation constitute a part of the beneficiary - Latvian company's overall income.</p> <p>The Corporate Income Tax obligation is deferred to the moment of profit distribution (dividends, interim dividends) or deemed profit distribution (deemed dividends, non-business expenditure, bad debts provisions/write-off, loans to the related persons, transfer pricing adjustments, liquidation quota) of the beneficiary - Latvian company. The tax is assessed and paid based on the Corporate Income Tax Return filed for a taxation period (a month or year).</p>
<p>Individual non-resident</p>	<p>20%^{2,4}</p>	<p>20%^{3,4}</p>	<p>20% tax from the interest (coupon) income is withheld and transferred to the State budget by an Issuer of Notes, if it is registered in Latvia.</p> <p>² - The reduced 10%, 7%, 5%, 2.5% or 0% tax rate on interest (coupon) income can be applicable in Latvia only, if provisions of the Double Tax Treaty concluded between Latvia and other relevant country stipulate it.</p> <p>³ - A capital gain from the Notes is considered equivalent to an interest income and taxed at 20% rate. The purchaser of the Notes, if it is registered in Latvia, performs calculation and withholding of a tax on capital gain [i.e. a profit]. If no profit is derived from a sale transaction, the 20% tax is not withheld/paid. The Double Tax Treaty provisions may stipulate a tax exemption in Latvia for a capital gain derived by a non-resident individual.</p> <p>⁴ - A non-resident individual being a beneficiary of interest (coupon) income or a capital gain could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country, which may or may not be higher than the one applicable in Latvia.</p>
<p>Company non-resident</p>	<p>exempt^{5,6}</p>	<p>exempt⁶</p>	<p>Interest (coupon) income and a capital gain derived by a non-resident company (except a company from one of the "blacklisted countries or territories") are tax exempt in Latvia.</p> <p>⁵ - An issuer of Notes withholds 20% tax from interest (coupon) payments, if they are made to a company non-resident registered in one of the low tax or non-tax countries or territories specified by the Cabinet Regulations of Latvia (so called "the blacklisted countries and territories").</p> <p>⁶ - A non-resident company being a beneficiary of interest (coupon) income or a capital gain could be obliged to assess and pay tax in its country of residence at the tax rate specified in the</p>

Source: Legal acts of the Republic of Latvia

7. Terms of the Private Offering

7.1. Subscription to the Notes

7.1.1. Subscription period

The offering shall commence on 22 November 2021 at 10am Riga time and shall end on the Maturity Date or when all Notes are sold, whichever is earlier.

7.1.2. Subscription terms

The subscription orders to the Notes can be submitted to the Arranger every Business Day during normal working hours. More detailed information on the submission of the subscription orders is available by phone +371 67 081 069.

Subscription orders can also be submitted to other Custodians, which in turn shall submit orders to the Arranger. The form of such subscription orders is regulated by contracts between Noteholders and Custodians and by the Legal Acts.

The minimal initial subscription size (the “Minimum Investment Amount”) is EUR 100,000.00 (one hundred thousand Euro). The subscription size should be equal to a multiple of the Settlement Unit Multiple.

Total Nominal Value of the Notes to be purchased and provided in each subscription order shall be for at least Minimum Investment Amount. A Potential Investor has the right to submit several orders during the offering.

All Subscription orders to the Notes shall be considered as binding and irrevocable commitment to acquire the allotted Notes.

By submitting the subscription order the Potential Investor confirms it: (a) has read and understands these Terms of the Notes Issue; and (b) agrees and commits to adhere to these Terms of the Notes Issue.

The First Settlement Date of Notes is 30 November 2021.

All the expenses related to the acquisition and custody of the Notes shall be borne by a Potential Investor in compliance with the pricelist of a credit institution or investment service provider, through which the investor purchases and keeps Notes. The Issuer is not obliged to compensate any such expenses incurred by the Potential Investor.

7.1.3. Notes price

The Notes purchase price can be equal to 100% (one hundred per cent) of the Nominal Value or purchase price could be lower or higher than the Nominal Value, meaning that the Notes can be sold with discount or premium, plus accrued interest.

All subscription orders that have been submitted after the First Settlement Date shall be executed with accrued interest, unless the subscription orders are submitted during the 5 (five) Business Days before the end of each respective quarter – from the Coupon record date and until the Coupon Payment Date, in which case the subscription orders shall be executed without accrued interest.

7.1.4. Allocation of the Notes to Noteholders

The Notes are allocated to Noteholders in the amount not larger than the amount specified in the subscription order and not less than the minimum size as described in the Clause 7.1.2 “Subscription terms”.

In case the total number of Notes subscribed for during the subscription period is less than the number of Notes available, the Notes will be allotted based on subscription orders placed.

In case the total number of the Notes subscribed for is higher than the number of Notes available the proportionate reduction principle shall be applied to the extent possible. The decision on the final allocation of the Notes is made by the Issuer. The Notes allocated to Noteholders shall not be less than the Minimum Investment Amount.

The Issuer or Arranger at its sole discretion has a right to refuse to allocate all or part of the subscribed Notes to any Potential Investor due to AML and Sanctions regulations compliance risk or other risks.

7.1.5. Reduction of the Notes issue size

At any time, the Issuer may decide to discontinue placement of the Notes. The total issue size is equal to the actual issue size of the Notes before such decision.

7.2. Settlement and delivery of the Notes

The settlement date for the Notes can be any Business Day which is not earlier than the second Business Day and not later than the 20th (twentieth) Business Day after subscription order is fully submitted to the Arranger.

Settlement of the Notes will be executed through the Depository in accordance with the DVP (delivery versus payment) principle pursuant to the applicable rules of the Depository. Any Notes remaining on the Issuer's account after the end of the subscription period shall be deleted.

The Custodians execute payments for the Notes based on the results of the subscription provided by the Arranger. The Notes will be transferred to Noteholders' financial instrument accounts on the settlement date.

Settlement of the Notes can be executed according to another procedure, which is agreed to by the Arranger and Potential Investor.

7.3. Pre-emptive rights

None of Potential Investors has the rights of pre-emption in respect to acquisition of the Notes in the initial placement.

8. Including of the Notes on the market and trading regulations

The Issuer plans to request the admission to trading of the Notes on First North within 12 (twelve) months after the Issue Date and submit these Terms of the Notes Issue and company description with Nasdaq Riga. The Issuer does not undertake to register the Notes prospectus with the FCMC or list the Notes on any regulated market.

The Issuer has not signed any agreement with any person for Notes liquidity maintenance on the secondary market.

9. Additional information

9.1. Advisors involved in the Issue

The issuer has concluded an agreement with the Arranger to organise the Notes issue, to communicate with the Nasdaq CSD, market it to investors and conduct settlement during the subscription period. The Arranger may provide other services to the Issuer in the future and receive remuneration for it. The Arranger may invest its own funds in the Notes.

The Issuer has signed the Collateral Agent Agreement with Collateral Agent, which holds the Collateral on behalf of the new and the existing Noteholders and is authorized to act with the Collateral in favour of all the Noteholders in accordance with these Terms of the Notes Issue and the Collateral Agent Agreement. The Collateral Agent may provide other services to the Issuer in the future and receive remuneration for it.

9.2. External audit of the information included in Terms of the Notes Issue

The auditors have not verified the information included in these Terms of the Notes Issue.

9.3. Statements or reports included in the securities description

The Terms of the Notes Issue does not contain any expert statements or reports.

9.4. Credit ratings

There is no credit rating assigned to the Issuer or to the Notes issue.

10. The Issuer

10.1. General information on the Issuer and the Group

The issuer is AS LONGO Group.

The Issuer's registration No. is 42103081417 and legal entity identifier is 894500SNGNS9HL2FSI45.

The legal address of the Issuer is at: Mūkusalas iela 72A, Riga, LV-1004, the Republic of Latvia.

The legal form: stock company, legal status – legal person.

The country of location: the Republic of Latvia.

The Issuer carries out its activities in accordance with the legal acts of the Republic of Latvia.

10.2. Description of the Issuer's position within the Group

The Issuer acts as the Group's holding company, raising funds to finance the Group's principal activity – sale of cars and light motor vehicles. The funds raised by the Issuer are further distributed to the Group's Subsidiaries on the basis of loan agreements between the Issuer and Subsidiaries.

The Issuer currently has 7 (seven) wholly owned Subsidiaries – please refer to Clause 11.9 The Issuer's ability to meet its obligations under the Notes according to these Terms of Notes Issue is therefore dependent on financing and cash flows transferred from the operating Subsidiaries of the Group.

10.3. Auditor

The Group's financial auditor of annual reports for the financial year 2020 was SIA "TaxLink Consulting" (with registration No. 40103512765, with a legal address at: Dunties iela 6, Riga, LV-1013, the Republic of Latvia) and for the financial year 2021 the financial auditor is "KPMG Baltics AS" (with registration No. 40003235171, with a legal address at: Vesetas iela 7, Riga, LV-1013, the Republic of Latvia).

11. Business of the Group

11.1. Overview

The Group was established in 2018 and is the leading used car retailer in the Baltics and is present in the Republic of Latvia, the Republic of Lithuania and the Republic of Estonia, as well as in the Kingdom of the Netherlands, the Kingdom of Belgium and the Federal Republic of Germany. The Group brings a new meaning to the Baltic used car industry by providing a fully transparent, reliable and world class used car purchase experience *via* both online and brick & mortar channels. Being a fully vertically integrated company, the Group carefully selects and sources (purchases) most of its cars from the Netherlands, Belgium and Germany. The Group has its own preparation centre in the Republic of Lithuania with facilities based in the Panevėžys region. To ensure the highest quality standards, before cars are sold, they are thoroughly checked, conditioned and if needed repaired by Longo's professional team.

The Group's data-driven approach and significant online presence has allowed it to build an efficient operations spanning multiple geographies and jurisdictions and becoming a leader of the used car retail market in the Baltics. In order to support the Group's business operations (including car sourcing, refurbishment, preparation, logistic, sales, *etc.*), it has developed its own proprietary integrated IT system and heavily invested in IT infrastructure. The Group is also offering financing solutions of its partners to customers.

Longo's mission is to deliver 3 (three) customer promises:

- (a) Wide assortment (the largest and competitively priced popular used car models in the Baltics);
- (b) Convenient and safe user experience (end-to-end, both digital and on-site);
- (c) Highest quality (used cars with guaranteed mileage, full available history and freshly serviced and cleaned).

The Group has established sales entities in 3 (three) countries: the Republic of Latvia, the Republic of Lithuania and the Republic of Estonia. Currently, the Group's largest market is the Republic of Lithuania, which accounted for 48% (forty-eight per cent) of the Group's Total sales in first 9 (nine) months of 2021, the Republic of Latvia accounted for 33% (thirty-three per cent) and the Republic of Estonia 19% (nine-teen per cent), during the same period.

11.2. Strategy of the Group

The strategic vision of the Group is to continue its profitable growth through transformation of used car market in the Baltics.

The Group plans to significantly increase its market share with an aim to become the undisputed leader of the used car market in the Baltics. To do that, the Group plans to institutionalize its retail concept to be able to rapidly roll-out to new locations in the Baltics, and most importantly continue to invest in its e-commerce platform across the Baltics.

These investments will allow the Group to use economies of scale in both the sourcing and selling parts of the business. As the Group business volumes will increase over time, the Group will be able to negotiate better terms for the sourcing of cars, and at the same time will decrease average fixed cost per unit sold. The Group plans to offer more supplementary services to its customers that will increase customer satisfaction and will also deliver additional revenue streams to the Group.

To achieve its strategic goals, it is essential the Group achieves the highest standards in all areas of operations. The Group believes its brand, data, IT and culture are key elements to the long-term

success. The Group will continue to invest in its digital capabilities, delivery services and online marketing. The overall aim is to provide an excellent customer experience and highest standard products.

11.3. Key Strengths of the Group

The Management team

The international management team is able to plan and deliver on the Groups' rapid growth strategy. The key positions in the sourcing and preparation phases are staffed only with professionals holding relevant experience.

Vertically integrated

The Group controls each step of the business from the brick & mortar sourcing operations in the western part of the EU, to the experienced pricing team and integrated pricing processes, as well as the in-house end-to-end high-capacity car preparation centre to physical marketplaces and the leading websites.

Digital first physical presence light sales approach

The Group has the leading digital shopping experience focused on convenience. The Group has a standardized sales processes focused on delivering a safe and hassle-free user experience.

IT infrastructure

The Group has a proprietary integrated back-office IT system linking all elements of the business together. The Group continues to heavily invest in front- and back-end IT development.

11.4. Business processes of the Group

The business processes of the Group can be divided in 4 (four) main phases: sourcing, preparation, sales and aftersales.

Vehicle sourcing

Currently the Group sources its used car inventory within the EU, mainly from the Netherlands, Belgium and Germany, from a variety of sources, including used-car auctions, corporate suppliers such as leasing companies and dealers, as well as directly from consumers in sales countries.

The Group's scale and established relationship by having a local team which is physically present in the sourcing countries gives it the ability to have access to a wide supply. In total the Group is cooperating with more than 300 (three hundred) international partners. Through a disciplined process of elimination, the Group selects only the most suitable vehicles that meet strict quality standards in every way. As a consequence, all purchased Group cars are a perfect match in both quality and price.

A small part of the used cars acquired by the Group are local trade-ins from consumers, also these are carefully checked, repaired if needed, cleaned and appropriately priced.

The Group expects in the future the trade-in segment will grow and more diverse supplier sources will need to be introduced (*e.g.*, auctions in other EU countries).

The split of different supplier sources of used cars in the period of 9 (nine) months ended 30 September 2021 by the Group are displayed in the table below:

Source	Count of purchased cars, units	Share from all purchased, %
Auctions	157	6%
Ex-Lease	813	34%
B2B (dealers)	1383	57%
Consumer	63	3%

Preparation

The Group owns and fully prepares all its used cars, ensuring the quality of its offer to customers. The Group is applying a model where the sales entity owns the car up to the point of sale, but the used cars still go through the Group's preparation and logistics processes. It means the used car is usually purchased by a sourcing entity in the Netherlands, Belgium or Germany, then it is sold to a vendor (a sales entity in the Republic of Latvia, the Republic of Lithuania or the Republic of Estonia).

While the Group is under the ownership of the used car it is transported to the preparation centre of the Group located in the Republic of Lithuania where diagnostics are performed and it is repaired if needed by the Group's qualified technicians. Each car is also cleaned and polished properly, photographed and after that it is transported to respective sales entity.

The Group's vehicle preparation centre currently employs a focused team of 45 (forty-five) employees and has capacity to refurbish approximately 85 (eighty-five) to 100 (one hundred) cars per week, with further mid-term increase achievable to 150 (one hundred and fifty) to 180 (one hundred and eighty) cars per week; it also features a 3D photo studio. The preparation centre ensures the Group's ability to deliver the highest standards to its customers, reducing dependencies on external service capacity and enables economies of scale. It allows the Group to shorten the time from moment of purchase for the vehicle to start selling (being published) and consequently the sale.

Sales

The Group offers its customers an online catalogue shopping experience, with more than 550 (five hundred and fifty) cars with full technical information, certification, high quality pictures incl. 360 (three hundred and sixty) degree interior viewing, exterior tours, created in unique 3D photo studio in Baltics managed by the Group. During September 2021, 93% (ninety-three per cent) of sales originated from the Group's websites.

The Group operates 3 (three) used car marketplaces in the Baltics (in the Republic of Latvia, the Republic of Lithuania or the Republic of Estonia). Customers can look at the used cars, compare them, receive professional consultation, and have a test drive. Even though the Group also offers home delivery of the used cars, there is still a large segment of customers who prefer to come to a physical location, therefore the Group is planning to further expand its physical footprint by opening more marketplaces and branches in other cities to satisfy customer demand.

Car marketplaces and branch of Longo Group

Address	Area, m ²	Type	Status
Mūkusalas iela 72A, Rīga, LV-1004, Latvia	10 000	Marketplace	Open
Harjumaa, Tallinn linn, Peterburi tee 81, 13626 Estonia	8 000	Marketplace	Open
Parodų g. 2, Vilnius 04133, Lithuania	10 000	Marketplace	Open
Savitiškio g. 61, Panevėžys, Lithuania, shopping mall RYO	n/a	Branch	Opening January 2022

The faster the Group can ensure each car goes through the cycle, the higher revenue and return on capital it can generate.

Aftersales

The Group also provides an aftersales warranty and reengages customers for next purchase. The standard warranty included is for a period of 2 (two) months after the sales date.

11.5. Supplementary income of the Group

The Group is a financing intermediary, which is assisting the Group's customers to locate the most suitable way of financing their car purchase. The Group works with wide range of partners, from large retail banks to alternative leasing providers, to cater the needs of each customer. The Group receives commission income from its leasing partners for the intermediary services provided.

The Group is working on introducing additional products and services to increase its supplementary income streams *e.g.*, an extended warranty which will allow its customers to have warranty on their car for up to 12 (twelve) months for after sale and paint protection (this is a special coating that is applied to the used car exterior by a professional technician to make it resistant to small scratches and dirt, as well as boost its shine).

11.6. Marketing

The Group's marketing strategy is set to meet the Group's main objective which is to be the leading used car retailer in the Baltics by volume and reputation. The Group has significantly invested in the front-end of its business, including supporting operations and digital marketing capabilities.

The Group's marketing task is to leverage its high sourcing and preparation standards into a marketing advantage, including:

(a) The Longo Certified program

The program is the Group's certified label which has a 100% (one hundred per cent) true mileage history evidenced by official documents. It also guarantees the used car has never

been stolen or been in a major accident, has never served as a taxi or a rental car and has no outstanding finance, insurance or debt issues.

(b) Service checklist & highlight

Every used car of the Group is thoroughly inspected and fully reconditioned before appearing online, so customers of the Group can be completely confident about their future used car's condition and safety.

Every used car of the Group completes a thorough 50 (fifty) point check-list inspection at preparation centre. The inspection is split in the following stages:

- a reception (a visual examination of the used car upon arrival to the preparation centre to make sure the used car's condition has not changed during the transportation);
- a mechanical parts check, including service maintenance, as well as oil and filter changes on every used car;
- an electronic check-up; and
- an interior check, including cleaning and restoration.

(c) Best in class photography (incl. 360 degree view)

The studio (a first fully automated 3D photo studio in Baltics) produces 360° (three hundred and sixty degrees) automotive photography for every car of the Group. Each car is photographed from more than 455 (four hundred and fifty-five) individual angles, providing each customer with a detailed interior and exterior photo gallery, including 360° (three hundred and sixty degrees) virtual tours from both inside and outside. These photographs have not undergone cosmetic processing *via* Photoshop or any other photo editing applications.

(d) Basic warranty on every car

The Group offers 2 (two) months or 3000km (three thousand kilometres) warranty for every used car sold. It provides a sense of security to customers of the Group.

(e) Online purchase and 14 (fourteen) days return right to everyone, for each delivered car

Increasing number of customers are choosing to buy a car online. To encourage customers not to postpone the purchase of a used car, the Group has introduced an online used car purchase possibility with a 14 (fourteen) day money return possibility and free home delivery.

The Group has built a leading, user-friendly and mobile first website. The Group's websites generate almost all leads from proprietary channels. Currently, more than 90% (ninety per cent) of sales originate from the Longo website compared to 1/3 (one-third) in 2019.

This increase is driven by multiple factors:

- (a) a more disciplined follow-up;
- (b) a better tracking (CRM);
- (c) a better conversion to site visit; and
- (d) more web-traffic overall,

The Group's plan is to add multiple new website features during 2021 and 2022 for the purpose of making an easy online reservation and online payment options, as well as to keep working on

attracting more users to the Group's websites and expanding the marketing channels with a target to reach wider target audience in a cost-effective manner. All added features to the websites are carried out in a consent-based way.

The Group will keep investing in advertising and public relations campaigns that will allow the ability to raise awareness of the Group's brand, which the Group considers to be very important to reach the leading position in the marketplace.

The Group's main marketing channels are Google AdWords and Paid Social. In total, these channels are the most dominant lead generating channels. For the Group, it is important to reach the leading positions on these search results, both paid and unpaid. Facebook ads are also used to attract potential customers by showing them the real action. The Group believes in bringing a sense of reality (real people, in the right environment), helping to build trust, which is a very important component in the used car retail business.

The Group's marketing efforts are also directed to the Search Engine Optimization (SEO) on each of the Group's pages across the Baltics to reach the top 3 (three) positions for strategic keywords in each of the markets.

The Group uses not only the previously mentioned channels, but also the Google Display Network (GDN) for traffic building, as it provides for a wide set of targeting options. A part of the GDN is also YouTube and the Group is working on this channel development.

The digital channels are the main channels the Group uses, and the ability to scale up in a cost-efficient way is its main advantage. The Group plans to widen its marketing channel mix and to expand to offline in 2022, with an effective mix of ATL and BTL channels.

11.7. Information Technology/Engineering

In order to support the business during the full lifecycle of the used car, from sourcing, preparation and to sales, the Group has developed its own integrated IT system and heavily invested in IT infrastructure.

The Group has built an internal ERP system with integrated CRM, Warehouse, Service, Finance and Sales modules which are the intellectual property of the Group. The Group has a detailed overview of all direct costs for each car in the Group's inventory, as well as all the related documents *e.g.*, the purchase invoices, intercompany transaction invoices, final sales invoices, that are attached to each specific used car.

The Group embraces effective process design principles and applies value driven prioritization principles to maximize its return on the time invested by the IT department. This approach aims at building solutions based on validated business needs, with a focus on running solid and stable systems, minimizing maintenance costs but maximizing customer conversion rates.

The systems of the Group are flexible and agile, with a solid and robust infrastructure. The Group has built a unified network infrastructure and IT security system that are centrally controlled by the Groups' IT team. The Group enforces usage and relies on standard and approved equipment in all of its offices in order to simplify the IT management and to ensure infrastructure stability. The Group's production system is hosted on Microsoft Azure, a secure cloud service platform.

All level of management has access to the real time reporting. The data warehouse solution, together with the reporting platform, gather data from all databases into one source, providing a comprehensive set of dashboards and reports for decision making and steering the business operations in an effective way.

11.8. Financing structure of the Group

The Group's activities are currently financed through capital and subordinated debt from shareholders. Intra-Group financing is also available to the Issuer, if needed.

The Funding structure of the Group as of 30 September 2021 is as follows:

Funding type	Funding amount, in thousands of EUR	Explanation
Equity ⁽¹⁾	13 220	Paid-in capital consisting of:
	4 750	A category shares
	250	A category share premium
	8 220	B category non-voting shares
Losses carried forward	(5 015)	Previous period losses carried forward
Long Term Borrowings from Shareholders ⁽²⁾	2 000	
Adjusted equity	10 205	

⁽¹⁾ The Issuer has introduced employee stock option plan as incentive scheme and plans to issue 2 500 000 (two million five hundred) C category shares to cover all employee stock options once exercised. Nominal value of 1 (one) C category share shall be 0,10 EUR (ten Euro cents). C category shares shall not have voting rights.

⁽²⁾ Long-term borrowing from shareholders will be converted to subordinated bonds which will be subordinated to the Bonds of the planned bond issue

11.9. Group structure

As of 30 November 2021, the Group had the following list of Subsidiaries:

Name	Registration number	Address	Ownership
Longo Latvia AS	40203147079	Mūkusalas iela 72A, Rīga, LV-1004 Latvia	100 %
Longo LT UAB	304837699	Perkūnkiemio g. 13-91, LT-12114 Vilnius Lithuania	100 %
Longo Estonia OÜ	14554950	Harjumaa, Tallinn linn, Peterburi tee 81, 13626 Estonia	100 %
Longo Shared Services UAB	305217797	Pramonės g. 8 K23, LT-35100 Panevėžys	100 %

Lithuania			
Longo Netherlands B.V.	71706267	Laaglandseweg 47 NL - 4214 KD Vuren, The Netherlands	100 %
Longo Belgium B.V.	0881764642	Hendrik van Veldekesingel 150-116 B-3500 Hasselt Belgium	100 %
Maxxus GmbH	201/5977/4414	Dennewartstrasse 25-27 D-52070 Aachen Germany	100 %

11.10. Management of the Issuer

The management board of the Issuer is responsible for the day-to-day management of the Group's operations. Further, according to the Latvian Commercial Law, it is the obligation of the management board to draft the annual reports and submit the reports to the supervisory board for review and to the general meeting for approval. The management board is accountable to the supervisory board and must adhere to its lawful instructions.

The management board members of the Issuer is as follows:

Name	Term until	Position
Edgars Cērps	Undefined period or until revoked	Executive Board Chairperson of the Board
Jacob W. Hoogenboom	Undefined period or until revoked	Executive Board Member of the Board

Edgars Cērps is the Group's co-founder and CEO. Edgars has a decade of experience in Finance, IT and Operational functions, working for Nokia and Uber in multiple countries across 4 (four) continents. He also has Strategy Consulting and Private Equity experience gained working at Bain & Company. Edgars holds an MBA degree from INSEAD and a bachelor's degree in Economics and Business Administration from Stockholm School of Economics in Riga.

Jacob W. Hoogenboom is the Group's COO. Jacob has multiple years of experience in Strategy Consulting at Bain & Company in various functions and geographies. Prior to that, he has extensive experience in sales and customer relations management as head of the representative office of a major international financial institution. Jacob holds an MBA with distinction from INSEAD as well as master's degrees in Finance (Luxembourg School of Finance) and Accounting & Control (Vrije Universiteit Amsterdam).

Edgars Cērps and Jacob W. Hoogenboom have no principal activities outside the Group.

11.11. Supervisory Board of the Issuer

In accordance with the Latvian Commercial Law, the supervisory board of the Issuer is responsible for the strategic planning of the business activities of the Issuer and supervising the activities of

the management board. The supervisory board is accountable to the shareholders of the Issuer (acting through the general meeting of shareholders of the Issuer). The Issuer is supervised by a supervisory board consisting of 5 (five) supervisory board members, which has the right to supervise the management board.

The supervisory board members of the Issuer is as follows:

Name	Term until	Position
Aigars Kesenfelds	Undefined period or until revoked	Chairman of the Supervisory Board
Māris Keišs	Undefined period or until revoked	Deputy Chairman of the Supervisory Board
Alberts Pole	Undefined period or until revoked	Member of the Supervisory Board
Kristaps Ozols	Undefined period or until revoked	Member of the Supervisory Board
Neil Jonathan Smith	Undefined period or until revoked	Member of the Supervisory Board

Aigars Kesenfelds

Aigars is a chairman of the supervisory board at AS Longo Group. Since 2008, Aigars has been a serial entrepreneur in financial services industry, real estate and has investments in various technology start-ups. Aigars is the Co-founder of AS “Mintos Marketplace”, “Eleving Group” (previously called “Mogo Finance”) and “Wash and Drive”, as well as financial investor in other businesses (AS DelfinGroup, AS Sun Finance Group and others). Aigars holds a bachelor’s degree in Economics and Business Administration from Stockholm School of Economics in Riga.

Māris Keišs

Māris is a member of the supervisory board at AS Longo Group. Since 2008, Māris has been a serial entrepreneur specializing in the financial services industry. Maris is the Co-founder of AS “Mintos Marketplace” and “Eleving Group” (previously called “Mogo Finance”). Māris holds a bachelor’s degree in Economics and Business Administration from Stockholm School of Economics in Riga.

Alberts Pole

Alberts is a member of the supervisory board at AS Longo Group. Alberts has wide experience in the financial services industry as an entrepreneur and investor. Alberts is the Co-founder of AS “Mintos Marketplace and “Eleving Group” (previously called “Mogo Finance”). Alberts holds a bachelor’s degree in Economics and Business Administration from Stockholm School of Economics in Riga.

Kristaps Ozols

Kristaps is a member of the supervisory board at AS Longo Group. Kristaps has wide experience in the financial services industry as an entrepreneur and investor. Kristaps is the Co-founder of AS “Mintos Marketplace and “Eleving Group” (previously called “Mogo Finance”). Kristaps holds a bachelor’s degree in Economics and Business Administration from Stockholm School of Economics in Riga.

Neil Jonathan Smith

Neil is an independent member of the supervisory board at AS Longo Group. Neil is a seasoned executive of UK automotive industry with over 10 years of experience. He is former Imperial Cars Operations Director and Cazoo Retail Operations Director. Imperial Cars sales grew from 80 cars a month to 2200 while he was on the post, Cazoo now is one of the leading online used car retailers in the UK. Neil was recognised as an ‘influencer’ in the UK Motor Trade in 2019.

11.12. Issuer’s shareholder structure

The ownership structure of as the Issuer is as follows:

Ultimate beneficial owner of the shareholder	Name of the shareholder	Count of A category shares, in thousands of shares	A category shares, %	Count of B category shares ⁽¹⁾ , in thousands of shares	Total shares, %
Aigars Kesenfelds	AK Family Investments, SIA	18 475	39%		45,6%
	AK Family Treasury, SIA	37		40 584	
Kristaps Ozols	KM invest, AS	6 171	13%	13 528	15,2%
Māris Keišs	Obelo Capital, AS	6 171	13%		15,2%
	Avole Holdings, AS			13 528	
Alberts Pole	Nevia Finance, SIA	6 171	13%		15,2%
	Novo Holdings, AS			13 528	
	Minority investors	10 475	22%	1 032	8,9%
	Total	47 500	100%	82 199	100%

⁽¹⁾ B category shares does not provide shareholder with voting rights, however shareholder of B category shares is entitled to receive dividend payments and liquidation quota.

11.13. Market overview and competition

The overall competition in the used car market in the Baltics is very fragmented, with over 700 (seven hundred) registered retailers just in the Republic of Latvia (information on the Republic of Estonia and the Republic of Lithuania is not available as retailers are not required to register there) and a substantial peer-to-peer sales channel. The Group estimates that the total used car market in 2020 was 440,000 (four hundred and forty thousand) sold cars or approximately EUR 2.6 billion (two-point six billion Euro).

The used car industry in Baltics is undergoing a transformation in various aspects. The tax authorities more actively prevent VAT fraud schemes and other tax evasion activities that used to be the norm. Further, customers also are becoming more educated and have learned how to check odometer manipulations and hidden defects, as well as retailer references are becoming more easily detectable.

These aspects are shaping the demand in the market for used cars. The slow changes in the market are following the course of other EU Member States.

The Group, as a pan-Baltic used cars retailer with high quality standards, is expecting to gain market share and strengthen its leading position due to the shift.

11.14. Legal proceeding and arbitration

At the time of signing these Terms of the Notes Issue, the Issuer is not involved in any government interventions, lawsuits or arbitration processes, which may significantly affect or have significantly affected the financial situation or profitability of the Issuer.

11.15. Substantial changes in financial situation of the Issuer

As of the publication of the last financial statement, the financial situation or performance of the Issuer has not worsened. The Issuer is unaware of any factors, claims, obligations, or events which would negatively affect the financial situation or performance of the Issuer in future.

11.16. Important agreements

The Issuer has no knowledge of any other important agreements or internal decisions that could have been concluded within the company or between the Issuer and any related company and that could affect the Issuer's capability to fulfil its liabilities due to Noteholders regarding the securities to be issued.

11.17. Significant recent and known trends

During 2020 and 2021 many economic sectors were affected by global pandemic.

At the time of signing these Terms of the Notes Issue, the Issuer has no information at its disposal regarding any known trends that have negatively affected the Issuer or the activity, apart from the aforementioned global pandemic impact.

12. Selected Financial Information of the Group

The shareholder's equity of the Group, as of 30 September 2021, is EUR 8.2 million (eight point two million Euros), while the Adjusted Equity of the Group is EUR 10.2 million (ten point two million Euros).

The profit / loss forecast has not been carried out.

The Group's financial reports will be available on its website www.longo.group and additionally via the Nasdaq Riga website after listing in First North.

The tables below present key selected financial information for the Group and have been derived from the Group's audited consolidated financial data as at and for the financial year ended 31 December 2020, as well as unaudited special purpose consolidated financial data as at and for the first nine months period ended 30 September 2021.

The Group's financial statements for 2020 have been prepared in accordance with Latvian Generally Accepted Accounting Principles (GAAP). Financial statements for 12M period ended 31 December 2021 will be prepared according to IFRS. All consolidated quarterly reports of the Group will be prepared according to the IFRS.

12.1. Consolidated statement of income data (in thousands of EUR)

	Audited 12M Period ended 31 Dec 2020	Unaudited 9M Period ended 30 Sep 2021
Revenue	14 996	22 334
Costs of goods sold	(13 686)	(19 664)
Gross profit	1 310	2 670
Commission income from lease	459	457
Selling expense	(228)	(373)
Administrative expense	(2 852)	(2 406)
Other operating income	206	1
Other operating expense	(282)	(27)
EBITDA	(1 387)	321
Interest expense	(242)	(114)
Depreciation & Amortisation	(166)	(145)
Change in DCIT	66	(0)
Profit (loss) for the period	(1 729)	62

12.2. Selected consolidated statement of financial position data (in thousands of EUR)

	Audited 12M Period ended 31 Dec 2020	Unaudited 9M Period ended 30 Sep 2021
Property and equipment	446	452
Intangible assets	282	385
Tangible and intangible assets	728	836
Inventory and raw materials	6 599	5 947
Deferred Tax asset and other tax receivables	478	760
Customer and leasing company receivables	10	374
Other receivables	168	366
Cash and cash equivalents	1 482	2 778
Total current assets	8 737	10 224
TOTAL ASSETS	9 465	11 060
Shareholder's equity		
Share capital	6 997	13 220
Retained earnings	(3 349)	(5 078)
Current year profit/ (loss)	(1 729)	62
TOTAL EQUITY	1 920	8 205
Liabilities		
Long Term Borrowings from Shareholders	6 042	2 000
Loans and borrowings	500	-
Trade and other payables	459	452
Taxes payable	264	92
Accrued liabilities	280	311
Total liabilities	7 545	2 856
Total equity and liabilities	9 465	11 060

12.3. Key financial ratios

The definitions for the following key financial ratios are as described in the notes to this table. The Group believes that such key financial ratios are a useful way of understanding trends in the performance of the business of the Group over time.

	Audited 12M Period ended 31 Dec 2020	Unaudited 9M Period ended 30 Sep 2021
EBITDA	(1 387)	321
EBITDA margin	(9.3%)	1.4%
Equity ratio	84%	92%