



ELKO GRUPA AS

Unaudited Consolidated Financial Statements
For 9 months ended 30 September 2016

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AS ELKO Grupa Management report on interim consolidated financial statements for the 9 month period ended 30 September 2016

Business activities

ELKO Grupa AS (hereinafter – the Company) is one of the largest distributors of IT products in the Baltic States, Central and Eastern Europe. The Company's core business activity is wholesale distribution of computer desktop components and peripherals, notebooks, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO Grupa AS subsidiaries and cooperation partners, representing a broad range of vendors of these products all over the world, including Lenovo, Apple, Intel, Acer, Asus, Seagate, Western Digital and others. The key to the success of ELKO Grupa AS as the parent company is the long-term strategy for cooperation with vendors developed over the years, centralized purchase system, functionality of business process and financial management.

Financial analysis

ELKO Grupa AS turnover in the 9 months of 2016 has reached USD 937.9m (EUR 840.3m) that constitutes 11.4% increase from the corresponding period in 2015. Gross profit reached USD 38.0m (EUR 34.0m) that is decrease by 7.3% comparing to prior year. The increase in turnover demonstrates the Company's ability to adjust to challenging market environment by shifting the focus to growing business segment.

Prospects

The Company's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Company has cooperation partners. The key factors driving the Company's growth was the increase in demand in the markets where the Company operates. The growth was mainly stimulated by the increased demand of mobile devices.

There are certain indicators that market condition in CIS region stabilizing and indicate trend towards slow growth. That allows the Company to remain optimistic regarding the increased trade volumes in 2016.

In the light of given market risks the management has assigned priority towards continuous working capital management.

Significant events during reporting period

In 2016 the Company has become the member of Global Technology Distribution Council. The Company has become official distributor of Lenovo notebooks in Russia.

ELKO Grupa AS structure

ELKO Grupa AS has shareholding in following subsidiaries: ELKO Lietuva UAB, ELKOTEX d.o.o., ELKO Eesti OU, ELKOTech Romania SRL, WESTech spol.s.r.o., WESTech CZ s.r.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine LLC, Alma LLC and ELKO Kazakhstan LLP.

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

Financial risk management

Multi-currency risk

ELKO Grupa AS operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, euro and Russian rubles. Foreign exchange risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments in various currencies.

The purchase of goods is predominantly in US dollars, but sales are conducted in different currencies. In the CIS region main currency is US dollar, but in the Baltic trade is conducted in Euros. CEE countries Slovakia and Slovenia trades in Euros, but Romania in national currency – Romanian lei(s).

The Company has shareholding in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – US dollar.

The sales of the Company are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars.

Interest rate risk

ELKO Grupa AS uses short-term borrowing for the partial financing of its current assets. All of the borrowings are at floating rate thus exposing the Company to interest rate risk.

Management report (cont'd)

Financial risk management (cont'd)

Credit risk

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

Inventories

ELKO Grupa AS determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products. Furthermore, the procedure for placing the orders has helped to decrease the inventory days. Weekly inventory analysis minimizes the need to establish provisions for obsolete items.

The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide the rights to claim the compensation on preordered goods in the warehouse in case of price reduction or decline in the market prices.

Liquidity risk

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

Events after balance sheet date

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 30 September 2016.



Egons Mednis
Chairman of the Board

Statement of Directors' responsibility

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated interim financial statements give true and fair view in all material aspects of the financial position of the Group as of September 30, 2016 and of its financial operations for the period ended 30 September 2016. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;
has provided well-grounded and prudent conclusions and evaluations;
has followed the going concern principle.

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



Egons Mednis

Chairman of the Board

Consolidated balance sheet

	Note	30.09.2016 USD'000	31.12.2015 USD'000	30.09.2016 EUR'000	31.12.2015 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		2,217	1,479	1,986	1,358
Intangible assets		441	438	395	402
Long term loans		3,844	3,730	3,444	3,426
		6,502	5,647	5,825	5,186
Current assets					
Inventories		251,337	222,146	225,193	204,047
Current income tax receivable		2,936	2,471	2,631	2,270
Trade and other receivables		193,200	116,569	173,102	107,072
Derivative financial instruments		47	2,666	42	2,449
Cash deposits		1,180	-	1,057	-
Cash and cash equivalents		16,617	31,958	14,889	29,354
		465,317	375,810	416,914	345,192
Total assets		471,819	381,457	422,739	350,378
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Ordinary shares		11,114	11,114	9,785	9,785
Share premium		5,996	5,996	4,974	4,974
Translation reserve		(8,973)	(11,884)	3,022	2,281
Retained earnings		79,999	79,114	61,187	60,429
		88,136	84,340	78,968	77,469
Non-controlling interest in equity		6,392	13,499	5,727	12,399
Total equity	3	94,528	97,839	84,695	89,868
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	4	9,035	8,778	8,052	8,063
		9,035	8,778	8,052	8,063
Current liabilities					
Trade and other payables		266,172	195,599	238,485	179,662
Interest-bearing loans and borrowings	4	100,478	76,840	90,069	70,580
Income tax payable		1,035	2,401	927	2,205
Derivative financial instruments		571	-	512	-
		368,256	274,840	329,993	252,447
Total liabilities		377,291	283,618	338,044	260,510
Total equity and liabilities		471,819	381,457	422,739	350,378

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.



Egons Mednis
Chairman of the Board

Consolidated income statement

	Note	Jan-Sep 2016 USD'000	Jan-Sep 2015 USD'000	Jan-Sep 2016 EUR'000	Jan-Sep 2015 EUR'000
Revenue	2	937,913	841,914	840,293	755,514
Cost of sales		(899,935)	(800,964)	(806,268)	(718,767)
Gross profit		37,978	40,950	34,025	36,747
Distribution expenses		(3,936)	(3,425)	(3,526)	(3,074)
Administrative expenses		(16,471)	(13,955)	(14,756)	(12,523)
Other income		210	391	188	352
Other expenses		(2,597)	(645)	(2,328)	(580)
Operating profit		15,184	23,316	13,603	20,922
Finance income		311	305	279	273
Finance expenses		(7,786)	(5,666)	(6,975)	(5,084)
Finance income/ (expenses) – net		(7,475)	(5,361)	(6,696)	(4,811)
Profit before income tax		7,709	17,955	6,907	16,111
Income tax expense	5	(1,327)	(2,056)	(1,189)	(1,845)
Profit for the period		6,382	15,899	5,718	14,266
Attributable to:					
Equity holders of the Company		6,985	9,357	6,258	8,396
Non-controlling interest		(603)	6,542	(540)	5,870
		6,382	15,899	5,718	14,266
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in USD and EUR per share)	6	0.71	1.36	0.64	1.22
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		3,170	(5,303)	939	1,216
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		9,552	10,596	6,657	15,482
Attributable to:					
Equity holders of the Company		9,896	4,521	6,999	9,448
Non-controlling interest		(344)	6,075	(342)	6,034
		9,552	10,596	6,657	15,482

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.



Egons Mednis
Chairman of the Board

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Transla- tion reserve	Total	Non- controlling interest	Total equity
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2015	11,114	5,996	66,573	(5,185)	78,498	8,593	87,091
Currency translation differences	-	-	-	(6,699)	(6,699)	(618)	(7,317)
Profit for the period	-	-	12,541	-	12,541	9,300	21,841
Total recognized income and expense for 2015	-	-	12,541	(6,699)	5,842	8,682	14,524
Dividend relating to prior years	-	-	-	-	-	(3,776)	(3,776)
Balance at 31 December 2015	11,114	5,996	79,114	(11,884)	84,340	13,499	97,839
Balance at 1 January 2016	11,114	5,996	79,114	(11,884)	84,340	13,499	97,839
Currency translation differences	-	-	-	2,911	2,911	259	3,170
Profit for the period	-	-	6,985	-	6,985	(603)	6,382
Total recognized income and expense for 2016	-	-	6,985	2,911	9,896	(344)	9,552
Dividend relating to prior years	-	-	(6,100)	-	(6,100)	(6,763)	(12,863)
Balance at 30 September 2016	11,114	5,996	79,999	(8,973)	88,136	6,392	94,528

	Share capital	Share premium	Retained earnings	Transla- tion reserve	Total	Non- controlling interest	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January 2015	9,785	4,974	49,125	771	64,655	7,078	71,733
Currency translation differences	-	-	-	1,510	1,510	390	1,900
Profit for the period	-	-	11,304	-	11,304	8,382	19,686
Total recognized income and expense for 2015	-	-	11,304	1,510	12,814	8,772	21,586
Dividend relating to prior years	-	-	-	-	-	(3,451)	(3,451)
Balance at 31 December 2015	9,785	4,974	60,429	2,281	77,469	12,399	89,868
Balance at 1 January 2016	9,785	4,974	60,429	2,281	77,469	12,399	89,868
Currency translation differences	-	-	-	741	741	198	939
Profit for the period	-	-	6,258	-	6,258	(540)	5,718
Total recognized income and expense for 2016	-	-	6,258	741	6,999	(342)	6,657
Dividend relating to prior years	-	-	(5,500)	-	(5,500)	(6,330)	(11,830)
Balance at 30 September 2016	9,785	4,974	61,187	3,022	78,968	5,727	84,695

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.

Consolidated cash flows statement

	Jan-Sep 2016 USD'000	Jan-Sep 2015 USD'000	Jan-Sep 2016 EUR'000	Jan-Sep 2015 EUR'000
Cash flows from operating activities				
Profit before tax	7,709	17,955	6,907	16,111
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	606	424	543	380
Interest income	(311)	(305)	(279)	(273)
Interest expenses	7,786	5,666	6,975	5,084
Fair value (gain)/losses on derivative financial instruments, net	3,190	1,045	2,919	966
Movements in provisions and allowances	-	(55)	-	(37)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	(77,096)	(57,857)	(66,391)	(59,420)
Decrease/(Increase) in inventories	(29,191)	29,836	(21,146)	10,247
(Decrease) in trade and other payables	72,247	13,623	58,416	33,951
Interest received	311	305	279	273
Income tax paid	(1,327)	(2,056)	(1,189)	(1,845)
Net cash flows used in operating activities	(16,076)	8,581	(12,966)	5,438
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	55	-	49	-
Purchases of property, plant and equipment and intangible assets	(1,347)	(1,098)	(1,164)	(1,069)
Proceeds from cash deposits	(1,180)	-	(1,057)	-
Loans repaid/(issued)	-	(3,572)	-	(3,326)
Net cash flows from / (used in) investing activities	(2,472)	(4,670)	(2,172)	(4,395)
Cash flows from financing activities				
Proceeds from bank overdrafts, net	23,895	(9,933)	19,478	(3,703)
Dividends paid to equity holders of the parent	(6,139)	(451)	(5,500)	(406)
Dividends paid to the Minority shareholders	(6,763)	(2,492)	(6,330)	(2,243)
Interest paid	(7,786)	(5,666)	(6,975)	(5,084)
Net cash flows (used in) / from financing activities	3,207	(18,542)	673	(11,436)
Net decrease in cash and cash equivalents	(15,341)	(14,631)	(14,465)	(10,394)
Cash and cash equivalents at beginning of the year	31,958	38,672	29,354	31,853
Cash and cash equivalents at end of the period	16,617	24,041	14,889	21,459

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 9 months ended 30 September 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

2. Segment information

Geographical segments by location of customers

The Group considers geography as its only reporting segment. The range of products sold by the Group, classes of its customers and distribution channels do not represent separate business segments as they are not subject to different risks and returns. Accordingly, the Group has only one business segment.

At 30 September 2016, it is organized into three main geographical segments by location of customers:

(1) The Baltic area relates to Latvia, Lithuania and Estonia

(2) Central and Eastern Europe area relates to Slovakia, Slovenia, Romania, Czech Republic and other countries

(3) The area of CIS relate to Russia, Ukraine and Kazakhstan.

The purchasing of inventory from vendors as well as financing is managed by the Company globally. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed on a global basis at corporate level. This activity is further referred to as central operation.

Therefore, the Group measures geographical segment performance, including corporate performance, based on the segment's operating result. Unallocated remain operating expenses of the central operation.

The segment results for 9 months ended 30 September 2016 are as follows for USD:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	76,615	370,858	490,441	-	937,913
Inter-segment revenue	206,053	310	77,987	(284,350)	-
Revenue	282,668	371,168	568,428	(284,350)	937,913

The segment results for 9 months ended 30 September 2015 are as follows for USD:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	68,548	244,317	529,049	-	841,914
Inter-segment revenue	190,028	3,164	61,952	(255,144)	-
Revenue	258,576	247,482	591,001	(255,144)	841,914

The segment results for 9 months ended 30 September 2016 are as follows for EUR :

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	68,641	332,258	439,395	-	840,293
Inter-segment revenue	184,606	278	69,870	(254,754)	-
Revenue	253,247	332,536	509,265	(254,754)	840,293

The segment results for 9 months ended 30 September 2015 are as follows for EUR :

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	61,513	219,245	474,756	-	755,514
Inter-segment revenue	170,527	2,839	55,594	(228,960)	-
Revenue	232,040	222,084	530,350	(228,960)	755,514

Notes to the consolidated financial statements

2. Segment information (continued)

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables, cash and cash equivalents. Unallocated assets comprise principally the central operations' equipment, inventory and other receivables from non-related parties.

The segment assets as at 30 September 2016 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets	209,466	132,363	326,788	(196,799)	471,819

The segment assets as at 30 September 2015 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets	200,245	48,564	340,092	(178,782)	410,119

The segment assets as at 30 September 2016 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets	187,677	118,594	292,795	(176,327)	422,739

The segment assets as at 30 September 2015 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets	178,742	43,349	303,572	(159,586)	366,078

Notes to the consolidated financial statements (continued)

3. Share capital

The total authorised and issued number of ordinary shares is 9,758 thousand shares (2015: 9,758 thousand shares) with a value of USD 1.1358 per share (2015: USD 1.1358 per share) and with value of EUR 1.00 per share (2015: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

4. Borrowings

	30.09.2016 USD'000	31.12.2015 USD'000	30.09.2016 EUR'000	31.12.2015 EUR'000
Non-current				
Bonds	8,977	8,709	8,000	8,000
Finance lease liabilities	58	69	52	63
	9,035	8,778	8,052	8,063
Current				
Bank borrowings	100,452	76,786	90,046	70,531
Other borrowings	-	-	-	-
Finance lease liabilities	26	54	23	49
	100,478	76,840	90,069	70,580
Total borrowings	109,513	85,618	98,121	78,643

As at September 30, 2016 the undrawn credit facilities amount to USD 32M.

5. Taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average tax rate for 9 months ended 30 September 2016 is 17.2 % (the estimated tax rate for 9 months ended 30 September 2015 was 11.4 %). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries, as well as the Group's policy on recognizing deferred tax assets.

6. Earnings per share

The Company has no dilutive potential shares therefore diluted earnings per share are equal to basic earnings per share. Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. There were no treasury shares.

	Jan-Sep 2016 USD'000	Jan-Sep 2015 USD'000	Jan-Sep 2016 EUR'000	Jan-Sep 2015 EUR'000
Profit attributable to equity holders of the Company	6,985	9,357	6,258	8,396
Weighted average number of ordinary shares in issue (thousands)	9,785	6,877	9,785	6,877
Basic earnings (USD and EUR per share)	0.71	1.36	0.64	1.22

7. Related party transactions

The Company has entered into an agreement with related party AST BALTS for rent of warehousing and office space. Elko Group AS issued a loan to AST Balt in amount of 3,426 million EUR on 26 November 2015. The interest rate is 5% and maturity date is 31 August 2020.

Terms and conditions of transactions with related parties:

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the quarter ended 30 September 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

8. Issued guarantees and pledges

All assets on which the Company holds title have been pledged as security in favour of the banks.

9. Subsequent events

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 30 September 2016.