



ELKO GRUPA AS

Unaudited Consolidated Financial Statements
For 9 months ended 30 September 2019

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AS ELKO Grupa Management report on interim consolidated financial statements for 9 months period ended 30 September 2019

Business activities

ELKO Grupa AS (hereinafter – the Company) is one of the region's largest distributors of IT products and solutions. The ELKO Group represents about 400 IT and electronic consumer goods manufacturers, and provides a wide range of products and services to more than 10 000 retailers, local computer manufacturers, system integrators and enterprises within various sectors in 30 countries in Europe and Central Asia. Currently, ELKO employs more than 1 200 people and is headquartered in Riga, Latvia. 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, a centralized purchase system, and the functionality of business-process and financial management.

Financial analysis

ELKO Grupa AS consolidated turnover in nine months of 2019 reached USD 1 185m (EUR 1 054 m) which is a 4.22% increase over the corresponding period in 2018. Gross profit reached USD 61.6 m (EUR 54.9m), an increase of 6.89% compared to the same period of previous year. The increase in Gross Profit reflects the Company's focus on withdrawing from the outsourcing of some business operations, mainly in the CIS region, and on optimizing operations.

Prospects

The Company's performance is and will be influenced by macroeconomic, competitive and political factors and the development of markets where the Company has cooperation partners. The key factors driving the Company's growth were significant expansion of the product portfolio, and the addition of new distribution areas to existing distribution agreements during the year. Consequently, ELKO managed to grow faster than the market as a whole. The stabilization of CIS market conditions and the trend towards slow growth, recent expansions, as well as Company's management strategic and operational efforts allow the Company to estimate that it will continue to grow in coming year. In the light of given market risks, management has assigned priority to the continuous management of working capital.

Significant events during the reporting period

There is no significant events after reporting period.

ELKO Grupa AS structure

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

Financial risk management

Multi-currency risk

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

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

The Company has shareholdings in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – the US dollar. Currency risk is actively mitigated by using different tools. The Company has centrally developed and globally applied currency risk management policies and procedures.

Management report (cont'd)**Financial risk management (cont'd)*****Interest-rate risk***

The Company utilises short-term borrowing for the partial financing of its current assets. All of the borrowings are at floating rates, thus exposing the Company to interest rate risks.

Credit risk

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

Inventories

The Company determines the amount of inventories based on expected future demand and market saturation. Any changes in demand and/or rapid obsolescence of products or technological changes will result in excess stock and the accumulation of obsolete items. The Company makes centralised plans for the purchase and sale of products. Furthermore, upgrading the procedure for placing orders has helped decrease inventory days. Weekly inventory analysis minimises 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 compensation on pre-ordered goods in the warehouse in cases of price reduction or declines in market prices.

Liquidity risk

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

Events after the balance sheet date

There have been no subsequent events after the last date of the reporting period that would have a significant effect on the financial position of the Company as at 30 September 2019.



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, 2019 and of its financial operations for the period ended 30 September 2019. 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	30.09.2019 USD'000	31.12.2018 USD'000	30.09.2019 EUR'000	31.12.2018 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		5,138	4,516	4,719	3,944
Intangible assets		1,077	968	989	846
Goodwill on acquisition of subsidiary		1,518	1,768	1,394	1,544
Long term loans		213	81	195	70
		7,946	7,333	7,297	6,404
Current assets					
Inventories		230,429	170,512	211,617	148,919
Current income tax receivable		1,940	1,806	1,782	1,577
Trade and other receivables		256,317	244,461	235,390	213,504
Derivative financial instruments		-	605	-	528
Cash deposits		1,500	1,500	1,372	1,310
Cash and cash equivalents		14,428	51,107	13,256	44,635
		504,614	469,991	463,417	410,473
Total assets		512,560	477,324	470,714	416,877
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		(12,464)	(9,616)	1,834	53
Retained earnings		89,936	90,955	70,267	71,169
		94,582	98,449	86,860	85,981
Non-controlling interest in equity		9,736	9,368	8,941	8,182
Total equity	2	104,318	107,817	95,801	94,163
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		765	602	702	526
	3	765	602	702	526
Current liabilities					
Trade and other payables		288,896	257,290	265,310	224,708
Interest-bearing loans and borrowings	3	116,880	110,026	107,338	96,093
Income tax payable		1,135	591	1,043	516
Provisions		566	948	520	828
Derivative financial instruments		-	50	-	43
		407,477	368,905	374,211	322,188
Total liabilities		408,242	369,507	374,913	322,714
Total equity and liabilities		512,560	477,324	470,714	416,877

The notes on page 10 are an integral part of these consolidated financial statements.

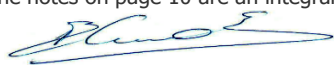


Egons Mednis
Chairman of the Board

Consolidated income statement

	Note	Jan-Sept 2019 USD'000	Jan-Sep 2018 USD'000	Jan-Sept 2019 EUR'000	Jan-Sep 2018 EUR'000
Revenue		1,184,596	1,136,630	1,054,303	951,561
Cost of sales		(1,122,948)	(1,078,958)	(999,437)	(903,279)
Gross profit		61,648	57,672	54,866	48,282
Distribution expenses		(11,051)	(7,896)	(9,835)	(6,610)
Administrative expenses		(34,756)	(29,078)	(30,932)	(24,344)
Other income		4,940	4,464	4,396	3,737
Other expenses		(1,443)	(8,187)	(1,284)	(6,854)
Operating profit		19,338	16,975	17,211	14,211
Finance income		314	1,181	280	989
Finance expenses		(7,668)	(8,716)	(6,825)	(7,297)
Finance income/ (expenses) – net		(7,354)	(7,535)	(6,545)	(6,308)
Profit before income tax		11,984	9,440	10,666	7,903
Income tax expense	4	(4,430)	(3,955)	(3,943)	(3,311)
Profit for the period		7,554	5,485	6,723	4,592
Attributable to:					
Equity holders of the Company		5,981	5,909	5,323	4,947
Non-controlling interest		1,573	(424)	1,400	(355)
		7,554	5,485	6,723	4,592
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)	5	0.61	0.60	0.54	0.51
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(3,501)	(414)	1,630	(4,949)
total comprehensive income to be reclassified to profit loss in subsequent periods for the year		4,053	5,071	8,353	(357)
Attributable to:					
Equity holders of the Company		3,133	5,909	7,104	42
Non-controlling interest		920	(893)	1,249	(447)
		4,053	5,016	8,353	(405)

The notes on page 10 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	Translation 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 2018	11,114	5,996	87,600	(3,579)	101,131	10,815	111,946
Effect of adoption of new accounting standards	-	-	(128)	-	(128)	-	(128)
Balance at 1 January 2018 (restated)	11,114	5,996	87,472	(3,579)	101,003	10,815	111,818
Other comprehensive income	-	-	-	(6,037)	(6,037)	(646)	(6,683)
Profit for the period	-	-	9,590	-	9,590	(233)	9,357
Total recognized income and expense for 2018	11,114	5,996	97,062	(9,616)	104,556	9,936	114,492
Dividend relating to prior years	-	-	(6,107)	-	(6,107)	(568)	(6,675)
Balance at 31 December 2018	11,114	5,996	90,955	(9,616)	98,449	9,368	107,817
Balance at 1 January 2019	11,114	5,996	90,955	(9,616)	98,449	9,368	107,817
Other comprehensive income	-	-	-	(2,848)	(2,848)	(653)	(3,501)
Acquisition/disposal of subsidiaries	-	-	-	-	-	-	-
Profit for the period	-	-	5,981	-	5,981	1,573	7,554
Total recognized income and expense for 2019	-	-	5,981	(2,848)	3,133	920	4,053
Dividend relating to prior years	-	-	(7,000)	-	(7,000)	(552)	(7,552)
Balance at 30 September 2019	11,114	5,996	89,936	(12,464)	94,582	9,736	104,318

	Share capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January 2018	9,785	4,974	68,163	1,572	84,494	9,017	93,511
Effect of adoption of new accounting standards	-	-	(114)	-	(114)	-	(114)
Balance at 1 January 2018 (restated)	9,785	4,974	68,049	1,572	84,380	9,017	93,397
Other comprehensive income	-	-	-	(1,519)	(1,519)	(148)	(1,667)
Acquisition of subsidiaries	-	-	-	-	-	-	-
Profit for the period	-	-	8,120	-	8,120	(197)	7,923
Total recognized income and expense for 2018	-	-	8,120	(1,519)	6,601	(345)	6,256
Dividend relating to prior years	-	-	(5,000)	-	(5,000)	(490)	(5,490)
Balance at 31 December 2018	9,785	4,974	71,169	53	85,981	8,182	94,163
Balance at 1 January 2019	9,785	4,974	71,169	53	85,981	8,182	94,163
Other comprehensive income	-	-	-	1,781	1,781	(151)	1,630
Acquisition/disposal of subsidiaries	-	-	-	-	-	-	-
Profit for the period	-	-	5,323	-	5,323	1,400	6,723
Total recognized income and expense for 2019	-	-	5,323	1,781	7,104	1,249	8,353
Dividend relating to prior years	-	-	(6,225)	-	(6,225)	(490)	(6,715)
Balance at 30 September 2019	9,785	4,974	70,267	1,834	86,860	8,941	95,801

The notes on page 10 are an integral part of these consolidated financial statements.

Consolidated cash flows statement

	Jan-Sep 2019 USD'000	Jan-Sep 2018 USD'000	Jan-Sep 2019 EUR'000	Jan-Sep 2018 EUR'000
Cash flows from operating activities				
Profit before tax	11,984	9,440	10,666	7,903
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	1,371	1,721	1,220	1,441
Loss on disposal of property, plant and equipment				
Interest income	(314)	(1,181)	(280)	(989)
Interest expenses	7,668	8,716	6,825	7,297
Fair value (gain)/losses on derivative financial instruments, net	(655)	544	(571)	483
Movements in provisions and allowances	(382)	297	(308)	262
Gain on disposal of property, plant and equipment	(21)		(19)	
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	(11,856)	8,433	(21,886)	513
Decrease/(Increase) in inventories	(59,917)	(32,471)	(62,698)	(33,691)
(Decrease)/ Increase in trade and other payables	28,080	51,254	41,760	53,395
Interest received	314	1,181	280	989
Interest paid	(7,668)	(8,716)	(6,825)	(7,297)
Income tax paid	(4,749)	(3,274)	(4,206)	(2,741)
Net cash flows used in operating activities	(36,144)	35,943	(36,041)	27,565
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	-	37	-	32
Purchases of property, plant and equipment and intangible assets	-	(1,886)	-	(2,079)
Acquisition of a subsidiary	-	(2,975)	-	(2,570)
Increase / (Decrease) from cash deposits	-	200	-	173
Proceeds from sale of financial instruments				
Net cash flows from / (used in) investing activities	-	(4,624)	-	(4,444)
Cash flows from financing activities				
(Borrowings repaid)/ Received	7,017	(35,772)	11,421	(26,343)
Dividends paid to equity holders of the parent	(7,000)	(3,670)	(6,269)	(3,150)
Dividends paid to the Minority shareholders	(552)	(568)	(490)	(490)
Net cash flows (used in) / from financing activities	(535)	(40,010)	4,662	(29,983)
Net decrease in cash and cash equivalents	(36,679)	(8,691)	(31,379)	(6,863)
Cash and cash equivalents at beginning of the year	51,107	33,329	44,635	27,790
Exchange gains / (losses) on cash	-	-	-	-
Cash and cash equivalents at end of the period	14,428	24,638	13,256	20,927

The notes on page 10 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements (continued)
1. General principles

These interim consolidated financial statements for 9 months ended 30 September 2019 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 2018.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2018: 9,785 thousand shares) with a value of USD 1.1358 per share (2018: USD 1.1358 per share) and with value of EUR 1.00 per share (2018: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	30.09.2019	31.12.2018	30.09.2019	31.12.2018
	USD'000	USD'000	EUR'000	EUR'000
Non-current				
Bonds	-	-	-	-
Bank borrowings	732	557	673	487
Finance lease liabilities	33	45	29	39
	765	602	702	526
Current				
Bonds	-	-	-	-
Bank borrowings	116,846	109,995	107,308	96,066
Other borrowings	-	-	-	-
Finance lease liabilities	34	31	30	27
	116,880	110,026	107,338	96,093
Total borrowings	117,645	110,628	108,040	96,619

4. 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 2019 is 37 % (the estimated tax rate for 9 months ended 30 September 2018 was 41.9%). 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.

5. Earnings per share

The Company has no dilutive potential shares therefore diluted earnings per share are equal to basic earning 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-Sept 2019	Jan-Sep 2018	Jan-Sept 2019	Jan-Sep 2018
	USD'000	USD'000	EUR'000	EUR'000
Profit attributable to equity holders of the Company	5,981	5,909	5,323	4,947
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.61	0.60	0.54	0.51

6. Related party transactions
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 period-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 2019, 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.

7. Subsequent events

There have been no subsequent events after the last date of the reporting period that would have a significant effect on the financial position of the Company as at 30 September 2019.