



Akciju Sabiedrība ELKO GRUPA

Unaudited Consolidated Financial Statements
For 9 months ended 30 September 2021

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Akciju Sabiedrība ELKO Grupa Management report on interim consolidated financial statements for 9 months period ended 30 September 2021

Business activities

Akciju Sabiedrība ELKO Grupa (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 31 countries in Europe and Central Asia. Currently, ELKO Group employs more than 1 500 people and is headquartered in Riga, Latvia.

The key to the success of Akciju Sabiedrība ELKO Grupa, 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

Akciju Sabiedrība ELKO Grupa consolidated turnover in nine months of 2021 reached USD 1,487m (EUR 1,243m) which is a 0.6% decrease over the corresponding period in 2020. Gross profit reached USD 97.3m (EUR 81.4m), an increase of 16.1% compared to the same period of previous year. Increase in gross profit is explained by general shortages in supply of goods which created deficit practically in all groups of products. However, shortages in supply, which started already in 2020, led to increase of proportion of advance payments for the goods. At the same time, goods delivery time and transportation costs increased. The mentioned change in logistic cycle and increase in advance payments for goods led to increase in stock level.

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 Group 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

In February 2021, Akciju Sabiedrība ELKO Grupa has issued 20 million EUR five years, non-secured bonds with coupon rate 6 p.a. payable semiannually. Bonds were listed on the Nasdaq First North in second quarter of 2021.

ELKOTech Romania SRL acquired 100% of shares of value-added distributor IT Smart Distribution SRL and WESTech CZ s.r.o. took over a controlling stake (85% of shares) in Logicworks s.r.o. from Etnetera Group.

Akciju Sabiedrība ELKO Grupa structure

Akciju Sabiedrība ELKO Grupa shareholdings in the following subsidiaries: ELKO Lietuva UAB, ELKOTEX d.o.o., ELKO Eesti OU, ELKO Polska Sp.z.o.o., ELKOTech Romania SRL, WESTech spol. s r.o., WESTech CZ s r.o., WESTech solutions s.r.o., ELKO Trading Switzerland A.G., ELKO Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine LLC, ELKO Rus LTD, Gandalf Distribution AB, ELKO Trading Malta LTD, TD Absolut LTD, Arašid spol. s r.o., Logicworks s.r.o., Game Distribution Kft., SWISS spol. s r.o., SWISS CZ s.r.o. and IT Smart Distribution SRL.

Akciju Sabiedrība ELKO Grupa holds a majority shareholding in all of the above subsidiaries except WESTech solutions s.r.o. with 25% of shares.

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 2021.



Egons Mednis
Chairman of the Board

Statement of Directors' responsibility

The Board of Akciju Sabiedrība 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 ELKO Group as of September 30, 2021 and of its financial operations for the period ended 30 September 2021. 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 Akciju Sabiedrība 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 ELKO 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	30.09.2021 USD'000	31.12.2020 USD'000	30.09.2021 EUR'000	31.12.2020 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		6,241	6,133	5,390	4,998
Intangible assets		1,471	1,756	1,270	1,431
Right-of-use assets		31,644	32,432	27,329	26,430
Goodwill on acquisition of subsidiary		2,265	1,823	1,956	1,486
Long term loans		397	442	343	360
		42,018	42,586	36,288	34,705
Current assets					
Inventories		312,064	187,822	269,508	153,062
Current income tax receivable		2,178	463	1,881	378
Trade and other receivables		374,065	321,750	323,055	262,203
Derivative financial instruments		119	-	103	-
Cash deposits		969	4,437	831	3,616
Cash and cash equivalents		14,881	41,101	12,858	33,494
		704,276	555,573	608,236	452,753
Total assets		746,294	598,159	644,524	487,458
EQUITY					
holders of the Company					
Ordinary shares		11,251	11,251	9,901	9,901
Share premium		5,996	5,996	4,974	4,974
Translation reserve		(7,916)	(6,516)	1,176	(2,792)
Retained earnings		100,062	91,886	78,424	71,542
		109,393	102,617	94,475	83,625
Non-controlling interest in equity		16,267	16,475	14,049	13,426
Total equity	2	125,660	119,092	108,524	97,051
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		23,563	387	20,350	316
Interest-bearing loans from related		24,611	19,630	21,134	15,997
Lease liabilities		26,952	26,952	21,964	21,964
	3	75,126	46,969	63,448	38,277
Current liabilities					
Trade and other payables		307,856	267,353	265,875	217,875
Interest-bearing loans and borrowings	3	223,539	139,750	194,804	113,886
Interest-bearing loans from related	3	-	7,724	-	6,295
Lease liabilities	3	6,464	6,464	5,267	5,267
Income tax payable		5,635	8,650	4,866	7,049
Provisions		2,014	2,054	1,740	1,674
Derivative financial instruments		-	103	-	84
		545,508	432,098	472,552	352,130
Total liabilities		620,634	479,067	536,000	390,407
Total equity and liabilities		746,294	598,159	644,524	487,458

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

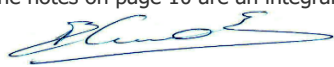


Egons Mednis
Chairman of the Board

Consolidated income statement

	Note	Jan-Sep 2021 USD'000	Jan-Sept 2020 USD'000	Jan-Sep 2021 EUR'000	Jan-Sept 2020 EUR'000
Revenue		1,486,896	1,495,537	1,243,017	1,330,545
Cost of sales		(1,389,573)	(1,411,720)	(1,161,656)	(1,255,975)
Gross profit		97,323	83,817	81,361	74,570
Distribution expenses		(10,649)	(12,597)	(8,903)	(11,207)
Administrative expenses		(43,507)	(34,365)	(36,371)	(30,573)
Other income		3,989	4,060	3,334	3,612
Other expenses		(6,599)	(3,949)	(5,517)	(3,514)
Operating profit		40,557	36,966	33,904	32,888
Finance income		270	332	226	294
Finance expenses		(10,202)	(10,472)	(8,529)	(9,316)
Finance income/ (expenses) – net		(9,932)	(10,140)	(8,303)	(9,022)
Profit before income tax		30,625	26,826	25,601	23,866
Income tax expense	4	(5,099)	(4,988)	(4,262)	(4,437)
Profit for the period		25,526	21,838	21,339	19,429
Attributable to:					
Equity holders of the Company		23,488	18,613	19,635	16,560
Non-controlling interest		2,038	3,225	1,704	2,869
		25,526	21,838	21,339	19,429
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	2.37	1.90	2.01	1.69
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(2,190)	(2,156)	4,112	(5,779)
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		23,336	19,682	25,451	13,650
Attributable to:					
Equity holders of the Company		22,088	15,711	23,603	10,665
Non-controlling interest		1,248	3,971	1,848	2,985
		23,336	19,682	25,451	13,650

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

	Issued 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 2020	11,114	5,996	66,904	(9,334)	74,680	11,270	85,950
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2020 (restated)	11,114	5,996	66,904	(9,334)	74,680	11,270	85,950
Other comprehensive income	-	-	-	2,818	2,818	1,559	4,377
Employee shares	137	-	(137)	-	-	-	-
Profit for the period	-	-	29,119	-	29,119	5,390	34,509
Total recognized income and expense for 2020	11,251	5,996	95,886	(6,516)	106,617	18,219	124,836
Dividend relating to prior years	-	-	(4,000)	-	(4,000)	(1,744)	(5,744)
Balance at 31 December 2020	11,251	5,996	91,886	(6,516)	102,617	16,475	119,092
Balance at 1 January 2021	11,251	5,996	91,886	(6,516)	102,617	16,475	119,092
Other comprehensive income	-	-	-	(1,400)	(1,400)	(790)	(2,190)
Employee shares	-	-	-	-	-	-	-
Profit for the period	-	-	23,488	-	23,488	2,038	25,526
Total recognized income and expense for 2021	-	-	23,488	(1,400)	22,088	1,248	23,336
Dividend relating to prior years	-	-	(15,312)	-	(15,312)	(1,456)	(16,768)
Balance at 30 Sept 2021	11,251	5,996	100,062	(7,916)	109,393	16,267	125,660

	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 2020	9,785	4,974	49,498	2,219	66,476	10,032	76,508
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2020 (restated)	9,785	4,974	49,498	2,219	66,476	10,032	76,508
Other comprehensive income	-	-	-	(5,011)	(5,011)	142	(4,869)
Employee shares	116	-	(116)	-	-	-	-
Profit for the period	-	-	25,512	-	25,512	4,722	30,234
Total recognized income and expense for 2020	116	-	25,396	(5,011)	20,501	4,864	25,365
Dividend relating to prior years	-	-	(3,352)	-	(3,352)	(1,470)	(4,822)
Balance at 31 December 2020	9,901	4,974	71,542	(2,792)	83,625	13,426	97,051
Balance at 1 January 2021	9,901	4,974	71,542	(2,792)	83,625	13,426	97,051
Other comprehensive income	-	-	-	3,968	3,968	144	4,112
Employee shares	-	-	-	-	-	-	-
Profit for the period	-	-	19,635	-	19,635	1,704	21,339
Total recognized income and expense for 2021	-	-	19,635	3,968	23,603	1,848	25,451
Dividend relating to prior years	-	-	(12,753)	-	(12,753)	(1,225)	(13,978)
Balance at 30 Sept 2021	9,901	4,974	78,424	1,176	94,475	14,049	108,524

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

Consolidated cash flows statement

	Jan-Sep 2021 USD'000	Jan-Sept 2020 USD'000	Jan-Sep 2021 EUR'000	Jan-Sept 2020 EUR'000
Cash flows from operating activities				
Profit before tax	30,625	26,826	25,601	23,866
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	2,179	1,604	1,822	1,427
Loss on disposal of property, plant and equipment				
Interest income	(270)	(332)	(226)	(294)
Interest expenses	10,202	10,472	8,529	9,316
Fair value (gain)/losses on derivative financial instruments, net	16	28	-	23
Movements in provisions and allowances	(40)	22	(314)	(17)
Gain on disposal of property, plant and equipment	(27)	(40)	(23)	(36)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	(54,030)	(19,917)	(2,723)	(7,294)
Decrease/(Increase) in inventories	(124,242)	(44,376)	(81,686)	(31,816)
(Decrease)/ Increase in trade and other payables	41,664	29,539	(9,915)	14,243
Interest received	270	332	226	294
Interest paid	(10,202)	(10,472)	(8,529)	(9,316)
Income tax paid	(9,580)	(4,700)	(7,968)	(4,254)
Net cash flows used in operating activities	(113,435)	(11,014)	(75,206)	(3,859)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	-	-	-	-
Purchases of property, plant and equipment and intangible assets	(1,039)	(1,559)	(869)	(1,332)
Sale of / (Acquisition) of a subsidiary	(2,476)	28	(2,099)	26
Increase / (Decrease) from cash deposits	(3,468)	(606)	(2,918)	(518)
Net cash flows from / (used in) investing activities	(6,983)	(2,137)	(5,886)	(1,824)
Cash flows from financing activities				
Bonds received	23,162	-	20,000	-
Proceeds from bank overdrafts, net	72,492	22,005	41,681	12,256
Repayment of borrowings	-	-	-	-
Payment of principal portion of lease liabilities	-	-	-	-
Non-controlling interest in established subsidiary				
Acquisition of non-controlling interests		-		-
Dividends paid to equity holders of the parent	-	-	-	-
Dividends paid to the Minority shareholders	(1,456)		(1,225)	
Net cash flows (used in) / from financing activities	94,198	22,005	60,456	12,256
Net decrease in cash and cash equivalents	(26,220)	8,854	(20,636)	6,574
Cash and cash equivalents at beginning of the year	41,101	27,328	33,494	24,328
Exchange gains / (losses) on cash	-	-	-	-
Cash and cash equivalents at end of the period	14,881	36,182	12,858	30,902

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 2021 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 2020.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2020: 9,785 thousand shares) with a value of USD 1.1358 per share (2020: USD 1.1358 per share) and with value of EUR 1.00 per share (2020: EUR 1.00 per share) and 115.99 thousand (2020: 115.99 shares) personal non voting shares with value of USD 1.1358 per share and with value of EUR 1.00 per share (2020: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	30.09.2021 USD'000	31.12.2020 USD'000	30.09.2021 EUR'000	31.12.2020 EUR'000
Non-current				
Bonds*	23,158	-	20,000	-
Borrowings from shareholders	24,611	19,630	21,134	15,997
Lease liabilities IFRS16	26,952	26,952	21,964	21,964
Finance lease liabilities	405	387	350	316
	75,126	46,969	63,448	38,277
Current				
Bank borrowings	223,342	139,548	194,634	113,706
Borrowings from shareholders	-	7,724	-	6,295
Lease liabilities IFRS16	6,464	6,464	5,267	5,267
Finance lease liabilities	197	-	170	-
	230,003	153,938	200,071	125,448
Total borrowings	305,129	200,907	263,519	163,725

*Financial covenants set by bond program i) Consolidated ratio of Equity (Total Equity increased by outstanding subordinated loans) to Assets (Total Assets decreased by IFRS 16 influence) is 21%. Minimal requirement is 16%. Covenant is fulfilled. ii) Consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) is 4.2 times. Minimal requirement is 1.5 times. Covenant is fulfilled.

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 2021 is 16.6 % (the estimated tax rate for 9 months ended 30 September 2020 was 18.6%). 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 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 2021 USD'000	Jan-Sep 2020 USD'000	Jan-Sep 2021 EUR'000	Jan-Sep 2020 EUR'000
Profit attributable to equity holders of the Company	23,488	18,613	19,635	16,560
Weighted average number of ordinary shares/employee in issue (thousands)	9,901	9,785	9,901	9,785
Basic earnings (USD and EUR per share)	2.37	1.90	1.98	1.69

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 2021, 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 2021.