



Akciju Sabiedrība ELKO GRUPA

Unaudited Consolidated Financial Statements
For 6 months ended 30 June 2022

Structure

	Page
Management report	3
Statement of Directors' responsibility	5
Consolidated balance sheet	6
Consolidated income statement	7
Consolidated statement of changes in equity	8
Consolidated cash flow statement	9
Notes to the consolidated financial statements	10

Akciju Sabiedrība ELKO Grupa Management report on operational consolidated financial statements for 6 months period ended 30 June 2022

Business activities

Akciju Sabiedrība ELKO Grupa (hereinafter – the Company) is one of the region's largest distributors of IT and consumer electronics products and solutions.

The ELKO Group represents about 350 IT and consumer electronic 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 29 countries in Europe and Central Asia. Currently, ELKO Group employs more than 1 100 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 during the 6 months of 2022 reached USD 772m (EUR 706m), which is a 15.56% decrease over the corresponding period in 2021 which is explained by divesting of Russian operations in April 2022. Gross profit reached USD 79.0m (EUR 72.2m), an increase of 30.27% compared to the same period of the previous year. Since the beginning of the war in Ukraine in late February, ELKO Group has stopped supplying goods to the Russian market, following international sanctions. At the same time, demand remained very strong and profitability increased considerably. In order to mitigate risks related to operations in Russia, at the end of April ELKO Group has divested its operations in the region, thus results of operations in Russian market were consolidated into ELKO Group only for first four months of 2022.

Regarding Ukrainian market, there was no sales during March. However, in April sales in Ukraine were recovering and there is positive tendency in cash collection from customers. Nevertheless, ELKO takes all necessary measures not to expose itself to risks and that keeps sales in Ukraine at comparably low level. Operations in other geographies are affected to small extent, demand and profitability are at healthy 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.

In light of mentioned risks in Ukraine, main mid-term focus in the market will be to minimize potential risks of losses by decreasing exposure in the market.

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

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 (until 18.04.2022), Gandalf Distribution AB, ELKO Trading Malta LTD, TD Absolut LTD (until 18.04.2022), Arašid spol. s r.o., Logicworks s.r.o., Westech HU Kft. (previous name: Game Distribution Kft.), SWISS spol. s r.o., SWISS CZ s.r.o., IT Smart Distribution SRL and ЭЛКО Ритейл ООО (until 18.04.2022).

Akciju Sabiedrība ELKO Grupa holds a majority shareholding in all of the above subsidiaries except ELKOTEX d.o.o. with 49% of shares, WESTech solutions s.r.o. with 25% of shares, SWISS spol. s r.o. with 26% of shares, SWISS CZ s.r.o. with 26% of shares, and Arašid CZ spol. s r.o. with 51% 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, 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 June 2022.



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 June 30, 2022 and of its financial operations for the period ended 30 June 2022. 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	30.06.2022 USD'000	31.12.2021 USD'000	30.06.2022 EUR'000	31.12.2021 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		6,109	6,545	6,186	5,779
Intangible assets		1,991	1,518	1,899	1,341
Right-of-use assets		21,156	22,166	20,368	19,571
Goodwill on acquisition of subsidiary		1,443	2,202	1,389	1,944
Investments in associates		2,734	-	2,632	-
Long term loans		789	562	759	496
		34,222	32,993	33,233	29,131
Current assets					
Inventories		151,482	319,490	145,838	282,086
Current income tax receivable		1,307	970	1,259	856
Trade and other receivables		208,576	373,551	200,790	329,817
Derivative financial instruments		16	-	16	-
Cash deposits		2,925	956	2,781	844
Cash and cash equivalents		21,357	40,053	20,596	35,364
		385,663	735,020	371,280	648,967
Total assets		419,885	768,013	404,513	678,098
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		(11,208)	(9,966)	12,253	1,884
Retained earnings		132,437	116,715	106,500	92,721
		138,476	123,996	133,628	109,480
Non-controlling interest in equity		14,803	18,002	14,251	15,894
Total equity	2	153,279	141,998	147,879	125,374
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		20,946	22,919	20,165	20,236
Interest-bearing loans from related		19,619	19,619	18,654	17,322
Lease liabilities		18,704	18,704	16,515	16,515
	3	59,269	61,242	55,334	54,073
Current liabilities					
Trade and other payables		121,354	327,856	116,835	289,472
Interest-bearing loans and borrowings	3	73,497	222,003	72,820	196,011
Interest-bearing loans from related	3	-	331	-	292
Lease liabilities	3	4,205	4,271	3,713	3,771
Income tax payable		5,561	7,087	5,353	6,257
Provisions		2,720	3,211	2,579	2,835
Derivative financial instruments		-	14	-	13
		207,337	564,773	201,300	498,651
Total liabilities		266,606	626,015	256,634	552,724
Total equity and liabilities		419,885	768,013	404,513	678,098

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-Jun 2022 USD'000	Jan-Jun 2021 USD'000	Jan-Jun 2022 EUR'000	Jan-Jun 2021 EUR'000
Revenue		772,146	914,437	705,964	758,919
Cost of sales		(693,163)	(853,805)	(633,751)	(708,600)
Gross profit		78,983	60,632	72,213	50,319
Distribution expenses		(5,382)	(7,963)	(4,921)	(6,608)
Administrative expenses		(29,840)	(28,201)	(27,283)	(23,405)
Other income		1,569	1,980	(1,131)	1,643
Other expenses		(13,179)	(3,189)	(10,150)	(2,647)
Operating profit		32,151	23,259	28,728	19,302
Finance income		587	201	537	167
Finance expenses		(7,679)	(6,197)	(7,021)	(5,143)
Finance income/ (expenses) – net		(7,092)	(5,996)	(6,484)	(4,976)
Profit before income tax		25,059	17,263	22,244	14,326
Income tax expense	4	(5,641)	(2,314)	(5,158)	(1,920)
Profit for the period		19,418	14,949	17,086	12,406
Attributable to:					
Equity holders of the Company		18,600	13,735	16,338	11,399
Non-controlling interest		818	1,214	748	1,007
		19,418	14,949	17,086	12,406
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	1.88	1.39	1.67	1.15
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(2,906)	(2,082)	10,056	1,450
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		16,512	12,867	27,142	13,856
Attributable to:					
Equity holders of the Company		14,908	11,911	24,544	12,615
Non-controlling interest		(3,199)	956	(1,643)	1,241
		11,709	12,867	22,901	13,856

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 2021	11,251	5,996	91,886	(6,516)	102,617	16,475	119,092
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2021 (restated)	11,251	5,996	91,886	(6,516)	102,617	16,475	119,092
Other comprehensive income	-	-	-	(3,450)	(3,450)	(1,294)	(4,744)
Employee shares	-	-	-	-	-	-	-
Profit for the period	-	-	40,141	-	40,141	4,277	44,418
Total recognized income and expense for 2021	11,251	5,996	132,027	(9,966)	139,308	19,458	158,766
Dividend relating to prior years	-	-	(15,312)	-	(15,312)	(1,456)	(16,768)
Balance at 31 December 2021	11,251	5,996	116,715	(9,966)	123,996	18,002	141,998
Balance at 1 January 2022	11,251	5,996	116,715	(9,966)	123,996	18,002	141,998
Other comprehensive income	-	-	-	(1,242)	(1,242)	(1,664)	(2,906)
Employee shares	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	(2,450)	-	(2,450)	(2,353)	(4,803)
Profit for the period	-	-	18,600	-	18,600	818	19,418
Total recognized income and expense for 2022	-	-	16,150	(1,242)	14,908	(3,199)	11,709
Dividend relating to prior years	-	-	(428)	-	(428)	-	(428)
Balance at 31 Mar 2022	11,251	5,996	132,437	(11,208)	138,476	14,803	153,279

	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 2021	9,901	4,974	71,542	(2,792)	83,625	13,426	97,051
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2021 (restated)	9,901	4,974	71,542	(2,792)	83,625	13,426	97,051
Other comprehensive income	-	-	-	4,676	4,676	78	4,754
Employee shares	-	-	-	-	-	-	-
Profit for the period	-	-	33,932	-	33,932	3,615	37,547
Total recognized income and expense for 2021	-	-	33,932	4,676	38,608	3,693	42,301
Dividend relating to prior years	-	-	(12,753)	-	(12,753)	(1,225)	(13,978)
Balance at 31 December 2021	9,901	4,974	92,721	1,884	109,480	15,894	125,374
Balance at 1 January 2022	9,901	4,974	92,721	1,884	109,480	15,894	125,374
Other comprehensive income	-	-	-	10,369	10,369	(313)	10,056
Employee shares	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	(2,163)	-	(2,163)	(2,078)	(4,241)
Profit for the period	-	-	16,338	-	16,338	748	17,086
Total recognized income and expense for 2022	-	-	14,175	10,369	24,544	(1,643)	22,901
Dividend relating to prior years	-	-	(396)	-	(396)	-	(396)
Balance at 31 Mar 2022	9,901	4,974	106,500	12,253	133,628	14,251	147,879

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

Consolidated cash flows statement

	Jan-Jun 2022	Jan-Jun 2021	Jan-Jun 2022	Jan-Jun 2021
	USD'000	USD'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before tax	25,059	17,263	22,244	14,326
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	1,493	1,422	1,344	1,180
Loss on disposal of property, plant and equipment				
Interest income	(587)	(201)	(537)	(167)
Interest expenses	7,679	6,197	7,021	5,143
Fair value (gain)/losses on derivative financial instruments, net	2	42	3	38
Movements in provisions and allowances	(491)	(80)	(256)	(13)
Share of net profit of associate and a joint venture	(2,353)	-	(2,078)	-
Loss on disposal of subsidiary	2,893	-	3,623	-
Gain on disposal of property, plant and equipment	(26)	(1)	(25)	(1)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	110,068	52,813	75,392	35,890
Decrease/(Increase) in inventories	33,341	(126,606)	8,687	(111,519)
(Decrease)/ Increase in trade and other payables	(123,130)	(25,465)	(82,523)	(12,196)
Interest received	587	201	537	167
Interest paid	(7,679)	(6,197)	(7,021)	(5,143)
Income tax paid	(5,600)	(7,287)	(5,054)	(6,057)
Net cash flows used in operating activities	41,255	(87,899)	21,358	(78,352)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	26	-	25	-
Purchases of property, plant and equipment and intangible assets	(1,907)	(420)	(1,836)	(348)
Sale of / (Acquisition) of a subsidiary	85	-	75	-
Increase / (Decrease) from cash deposits	1,969	(3,110)	1,774	(2,617)
Net cash flows from / (used in) investing activities	172	(3,530)	38	(2,965)
Cash flows from financing activities				
Bonds received	-	23,162	-	20,000
Proceeds from bank overdrafts, net	(49,178)	52,395	(25,731)	49,051
Cash increase (decrease) due to disposal of subsidiary	(10,471)	-	(10,037)	-
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	(475)	-	(396)	-
Dividends paid to the Minority shareholders	-	(1,166)	-	(980)
Net cash flows (used in) / from financing activities	(60,124)	74,391	(36,164)	68,071
Net decrease in cash and cash equivalents	(18,696)	(17,038)	(14,768)	(13,246)
Cash and cash equivalents at beginning of the year	40,053	41,101	35,364	33,494
Exchange gains / (losses) on cash	-	-	-	-
Cash and cash equivalents at end of the period	21,357	24,063	20,596	20,248

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 6 months ended 30 June 2022 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 2021.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2021: 9,785 thousand shares) with a value of USD 1.1358 per share (2021: USD 1.1358 per share) and with value of EUR 1.00 per share (2021: EUR 1.00 per share) and 115.99 thousand (2021: 115.99 shares) personal non voting shares with value of USD 1.1358 per share and with value of EUR 1.00 per share (2021: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	30.06.2022 USD'000	31.12.2021 USD'000	30.06.2022 EUR'000	31.12.2021 EUR'000
Non-current				
Bonds*	20,774	22,652	20,000	20,000
Borrowings from shareholders	19,619	19,619	18,654	17,322
Lease liabilities IFRS16	18,704	18,704	16,515	16,515
Finance lease liabilities	172	267	165	236
	59,269	61,242	55,334	54,073
Current				
Bank borrowings	73,309	221,746	72,639	195,784
Borrowings from shareholders	-	331	-	292
Lease liabilities IFRS16	4,205	4,271	3,713	3,771
Finance lease liabilities	188	257	181	227
	77,702	226,605	76,533	200,074
Total borrowings	136,971	287,847	131,867	254,147

*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 44%. Minimal requirement is 16%. Covenant is fulfilled. ii) Consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) is 4.8 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 6 months ended 30 June 2022 is 22.5 % (the estimated tax rate for 6 months ended 30 Jun 2021 was 13.4%). 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.

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-Jun 2022 USD'000	Jan-Jun 2021 USD'000	Jan-Jun 2022 EUR'000	Jan-Jun 2021 EUR'000
Profit attributable to equity holders of the Company	18,600	13,735	16,338	11,399
Weighted average number of ordinary shares/employee in issue (thousands)	9,901	9,901	9,901	9,901
Basic earnings (USD and EUR per share)	1.88	1.39	1.65	1.15

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 June 2022, 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 June 2022.