



Akciju Sabiedrība ELKO GRUPA

Unaudited Consolidated Financial Statements
For 12 months ended 31 December 2022

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Akciju Sabiedrība ELKO Grupa Management report on operational consolidated financial statements for 12 months period ended 31 December 2022

Business activities

Akciju Sabiedrība ELKO Grupa (hereinafter – the Company) is one of the region's largest IT and consumer electronics product and solution distributors. ELKO 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 employs more than 1 100 people and is headquartered in Riga, Latvia. The key to the success of the Company, as the parent company, is the long-term strategy for cooperation with vendors developed over the years, a centralised purchase system, and the functionality of business processes and financial management.

Financial analysis

Akciju Sabiedrība ELKO Grupa consolidated turnover during the 12 months of 2022 reached USD 1,516m (EUR 1,428m), which is a 30.82% decrease over the corresponding period in 2021 which is explained by divesting of Russian operations in April 2022. Gross profit reached USD 142.6m (EUR 134.2m), a decrease of 10.19% compared to the same period of the previous year.

The year 2022 started with the first signs of market balancing as the demand began slightly softening while supply recovered in some product categories. However, the geopolitics added unexpected turbulence and significantly affected the mindset and behaviour of all the market participants (vendors, distributors, customers and governments) in ELKO's primary markets.

Since the beginning of the war in Ukraine in late February, the Company stopped supplying goods to the Russian market following the implementation of international sanctions. In order to mitigate risks related to operations in Russia, at the end of April, the Company divested its operations in the region. Thus, the results of operations in the Russian market were consolidated into the ELKO Group only for the first four months of 2022.

While there were no sales during March in Ukraine, there was a noticeable recovery in the remaining year, allowing the Ukrainian sales office to resume operations fully and finish the year profitably, navigating between strict risk management policies to limit Group's exposure to the volatile region and new opportunities in highly demanded product categories.

Operations in other European geographies saw incremental demand in specific product categories, like drones and energy management, at the same time feeling strong inflationary pressure on consumer sentiment closer to the year's end. Some of those effects were planned, allowing us to achieve results above initial estimates. At the same time, selected markets showed signs of slowing down if compared to the heights of pandemic-driven demand.

Despite a decrease in consolidated revenue by 30.82%, the profitability remained strong throughout the year. Prudent risk management and divestment of Russian entities have noticeably improved the balance structure. Following the restructuring and optimisation of the Group's legal structure, in December 2022, ELKO Trading Malta LTD was sold, which allowed to cut costs and optimise processes within the Company.

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 a significant product portfolio expansion and adding new distribution areas to existing distribution agreements during the year.

At the start of 2023, the Company sees a continued slowdown in some of the major product categories, but a strong focus on expansion in new product categories allows us to remain cautiously optimistic about achieving the budgeted results.

In light of mentioned risks in Ukraine, the main mid-term focus in the market will be to minimise potential risks of losses by decreasing exposure in the market. In 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 (until 14.12.2022), 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, ЭЛКО Ритейл ООО (until 18.04.2022), ELKO Trading Kazakhstan LLP, ELKO Nordics Shared Services AB, ELKO Nordic AB.

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.

Management report (cont'd)**Financial risk management*****Multi-currency risk***

The Company operates internationally and is exposed to foreign exchange risks, 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 various 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 the 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.

Interest-rate risk

The Company utilises short-term borrowing for the partial financing of its current assets. All 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 minimised through credit-risk insurance, but mainly the risk is minimised 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 a price reduction or decline in market prices.

Liquidity risk

Prudent liquidity-risk management includes maintaining sufficient cash and 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 working capital management.

Events after the balance sheet date

Ukraine is currently associated with increased financial and security risks, adversely affecting the Company's overall risk profile. In order to preserve the Company's hard-earned financial credibility and solid credit profile in markets outside Ukraine, the Company has taken the decision to divest the Ukrainian entity and now, is processing the selling of a 100% stake in ELKO Ukraine LLC.

Otherwise, there have been no subsequent events after the last date of the reporting period that would have a significant effect on the Company's financial position as of 31 December 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 a true and fair view in all material aspects of the financial position of the Company as of December 31, 2022, and of its financial operations for the period ended 31 December 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 a true and fair view of the financial position of the Company 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	31.12.2022 USD'000	31.12.2021 USD'000	31.12.2022 EUR'000	31.12.2021 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		5,314	6,545	4,982	5,779
Intangible assets		2,643	1,518	2,478	1,341
Right-of-use assets		21,283	22,166	19,954	19,571
Goodwill on acquisition of subsidiary		1,430	2,202	1,341	1,944
Investments in associates		2,946	-	2,762	-
Long term loans		842	562	789	496
		34,458	32,993	32,306	29,131
Current assets					
Inventories		148,689	319,490	139,406	282,086
Current income tax receivable		1,017	970	953	856
Trade and other receivables		273,877	373,551	256,804	329,817
Derivative financial instruments		-	-	-	-
Cash deposits		3,131	956	2,935	844
Cash and cash equivalents		23,219	40,053	21,770	35,364
		449,933	735,020	421,868	648,967
Total assets		484,391	768,013	454,174	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		(11,737)	(9,966)	9,486	1,884
Retained earnings		135,660	116,715	108,024	92,721
		141,170	123,996	132,385	109,480
Non-controlling interest in equity		18,504	18,002	17,348	15,894
Total equity	2	159,674	141,998	149,733	125,374
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		21,362	22,919	20,028	20,236
Interest-bearing loans from related		40,984	19,619	38,425	17,322
Lease liabilities		18,704	18,704	16,515	16,515
	3	81,050	61,242	74,968	54,073
Current liabilities					
Trade and other payables		161,994	327,856	151,878	289,472
Interest-bearing loans and borrowings	3	72,018	222,003	68,772	196,011
Interest-bearing loans from related	3	-	331	-	292
Lease liabilities	3	4,205	4,271	3,713	3,771
Income tax payable		2,301	7,087	2,157	6,257
Provisions		3,096	3,211	2,903	2,835
Derivative financial instruments		53	14	50	13
		243,667	564,773	229,473	498,651
Total liabilities		324,717	626,015	304,441	552,724
Total equity and liabilities		484,391	768,013	454,174	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-Dec 2022 USD'000	Jan-Dec 2021 USD'000	Jan-Dec 2022 EUR'000	Jan-Dec 2021 EUR'000
Revenue		1,515,719	2,191,031	1,427,555	1,852,109
Cost of sales		(1,373,167)	(2,032,306)	(1,293,302)	(1,717,934)
Gross profit		142,552	158,725	134,253	134,175
Distribution expenses		(10,370)	(15,565)	(9,756)	(13,157)
Administrative expenses		(57,166)	(64,097)	(54,135)	(54,183)
Other income		15,701	5,507	14,948	4,655
Other expenses		(12,714)	(10,786)	(11,901)	(9,119)
Operating profit		78,003	73,784	73,409	62,371
Finance income		822	448	768	378
Finance expenses		(11,931)	(15,087)	(11,180)	(12,753)
Finance income/ (expenses) – net		(11,109)	(14,639)	(10,412)	(12,375)
Profit before income tax		66,894	59,145	62,997	49,996
Income tax expense	4	(8,535)	(14,727)	(7,932)	(12,449)
Profit for the period		58,359	44,418	55,065	37,547
Attributable to:					
Equity holders of the Company		54,744	40,141	51,634	33,932
Non-controlling interest		3,615	4,277	3,431	3,615
		58,359	44,418	55,065	37,547
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	5.53	4.05	5.28	3.47
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(2,009)	(4,744)	8,193	4,754
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		56,350	39,674	63,258	42,301
Attributable to:					
Equity holders of the Company		50,523	36,691	57,073	38,608
Non-controlling interest		1,024	2,983	1,944	3,693
		51,547	39,674	59,017	42,301

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	-	-	-	(1,771)	(1,771)	(238)	(2,009)
Employee shares	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	(2,450)	-	(2,450)	(2,353)	(4,803)
Profit for the period	-	-	54,744	-	54,744	3,615	58,359
Total recognized income and expense for 2022	-	-	52,294	(1,771)	50,523	1,024	51,547
Dividend relating to prior years	-	-	(33,349)	-	(33,349)	(522)	(33,871)
Balance at 31 December 2022	11,251	5,996	135,660	(11,737)	141,170	18,504	159,674

	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	-	-	-	7,602	7,602	591	8,193
Employee shares	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	(2,163)	-	(2,163)	(2,078)	(4,241)
Profit for the period	-	-	51,634	-	51,634	3,431	55,065
Total recognized income and expense for 2022	-	-	49,471	7,602	57,073	1,944	59,017
Dividend relating to prior years	-	-	(34,168)	-	(34,168)	(490)	(34,658)
Balance at 31 December 2022	9,901	4,974	108,024	9,486	132,385	17,348	149,733

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

Consolidated cash flows statement

	Jan-Dec 2022	Jan-Dec 2021	Jan-Dec 2022	Jan-Dec 2021
	USD'000	USD'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before tax	66,894	59,145	62,997	49,996
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	2,831	2,980	2,588	2,631
Loss on disposal of property, plant and equipment				
Interest income	(822)	(449)	(768)	(378)
Interest expenses	11,931	15,088	11,180	12,753
Fair value (gain)/losses on derivative financial instruments, net	39	(89)	37	(71)
Movements in provisions and allowances	(115)	1,157	68	1,161
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	(78)	(27)	(74)	(23)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	14,241	(52,308)	(8,238)	(68,092)
Decrease/(Increase) in inventories	13,561	(131,668)	(6,045)	(129,024)
(Decrease)/ Increase in trade and other payables	(61,363)	63,614	(33,404)	84,601
Interest received	822	448	768	378
Interest paid	(11,931)	(15,087)	(11,180)	(12,753)
Income tax paid	(10,714)	(15,171)	(9,902)	(12,689)
Net cash flows used in operating activities	25,836	(72,367)	9,572	(71,510)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	80	-	73	-
Purchases of property, plant and equipment and intangible assets	(2,453)	(4,373)	(2,328)	(3,861)
Sale of / (Acquisition) of a subsidiary	85	(2,548)	75	(2,160)
Increase / (Decrease) from cash deposits	2,175	(3,481)	2,039	(3,073)
Net cash flows from / (used in) investing activities	(113)	(10,402)	(140)	(9,094)
Cash flows from financing activities				
Bonds received	-	23,162	-	20,000
Proceeds from bank overdrafts, net	(28,823)	65,324	(10,115)	68,232
Cash increase (decrease) due to disposal of subsidiary	(12,736)	-	(12,025)	-
Payment of principal portion of lease liabilities	-	(4,997)	-	(4,273)
Non-controlling interest in established subsidiary				
Acquisition of non-controlling interests				
Dividends paid to equity holders of the parent	(475)	(312)	(396)	(260)
Dividends paid to the Minority shareholders	(522)	(1,456)	(490)	(1,225)
Net cash flows (used in) / from financing activities	(42,556)	81,721	(23,026)	82,474
Net decrease in cash and cash equivalents	(16,834)	(1,048)	(13,594)	1,870
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	23,219	40,053	21,770	35,364

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

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 12 months ended 31 December 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

	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	USD'000	USD'000	EUR'000	EUR'000
Non-current				
Bonds*	21,334	22,652	20,000	20,000
Borrowings from shareholders	40,984	19,619	38,425	17,322
Lease liabilities IFRS16	18,704	18,704	16,515	16,515
Finance lease liabilities	28	267	28	236
	81,050	61,242	74,968	54,073
Current				
Bank borrowings	70,259	221,746	66,967	195,784
Borrowings from shareholders	-	331	-	292
Lease liabilities IFRS16	4,205	4,271	3,713	3,771
Finance lease liabilities	1,759	257	1,805	227
	76,223	226,605	72,485	200,074
Total borrowings	157,273	287,847	147,453	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 43%. Minimal requirement is 16%. Covenant is fulfilled. ii) Consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) is 6.6 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 12 months ended 31 December 2022 is 12.8 % (the estimated tax rate for 12 months ended 31 December 2021 was 24.9%). 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-Dec 2022	Jan-Dec 2021	Jan-Dec 2022	Jan-Dec 2021
	USD'000	USD'000	EUR'000	EUR'000
Profit attributable to equity holders of the Company	54,744	40,141	51,634	33,932
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)	5.53	4.05	5.22	3.43

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 31 December 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

Ukraine is currently associated with increased financial and security risks, adversely affecting the Company's overall risk profile. In order to preserve the Company's hard-earned financial credibility and solid credit profile in markets outside Ukraine, the Company has taken the decision to divest the Ukrainian entity and now, is processing the selling of a 100% stake in ELKO Ukraine LLC. Otherwise, there have been no subsequent events after the last date of the reporting period that would have a significant effect on the Company's financial position as of 31 December 2022.