ELKO GRUPA AS

Unaudited Consolidated Financial Statements
For 9 months ended 30 September 2018

Structure

AS ELKO Grupa Management report on interim consolidated financial statements for 9 months ended 30 September 2018

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 210 IT manufacturers, and provides a wide range of products and services to more than 7 700 retailers, local computer manufacturers, system integrators and enterprises within various sectors in 30 countries in Europe and Central Asia. Currently, ELKO employs more than 700 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 the nine months of 2018 reached USD 1 137m (EUR 952m) which is a 6.8% increase over the corresponding period in 2017. This is explained by organic growth in several territories as well as by consolidation of results of Absolut Trading Company and Arašid spol. s r.o. into the ELKO Group, starting from July 2018. Gross profit reached USD 57.7m (EUR 48.3m), an increase of 13.9% compared to the 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

In July 2018 ELKO Grupa has acquired majority of stock in two companies - Absolut Trading Company and Arašid spol. s r.o. Absolut Trading Company is one of the leading wholesalers of household appliances and electronics in Russia, wheereas Arašid spol. s r.o. is IT product retailer with wide internet and physical stores’ network in Slovakia and other neighbor countries.

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, Alma LLC, ELKO Rus LTD, ELKO Kazakhstan 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 2018.

Egons Mednis
Chairman of the Board

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

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, 2018 and of its financial operations for the period ended 30 September 2018. 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

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Consolidated balance sheet

	Note	30.09.2018	31.12.2017	30.09.2018	31.12.2017
ASSETS		**USD'000**	**USD'000**	**EUR'000**	**EUR'000**
Non-current assets					
Property, plant and equipment		19,213	19,526	16,646	16,449
Intangible assets		1,390	912	1,201	760
Goodwill on acquisition of subsidiary		2,677	1,759	2,335	1,467
		23,280	**22,197**	**20,182**	**18,676**
Current assets					
Inventories		220,248	187,777	190,263	156,572
Current income tax receivable		4,103	3,765	3,544	3,140
Trade and other receivables		217,018	225,451	187,473	187,986
Derivative financial instruments		159	167	137	139
Cash deposits		1,300	1,100	1,300	917
Cash and cash equivalents		24,431	33,329	20,927	27,790
		467,259	**451,589**	**403,644**	**376,544**
Total assets		**490,539**	**473,786**	**423,826**	**395,220**
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		(15,905)	(3,579)	(6,254)	1,572
Retained earnings		87,402	87,600	68,110	68,163
		88,607	**101,131**	**76,615**	**84,494**
Non-controlling interest in equity		**12,735**	**10,815**	**11,001**	**9,017**
Total equity	2	**101,342**	**111,946**	**87,616**	**93,511**
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		7,806	7,269	6,744	6,061
	3	**7,806**	**7,269**	**6,744**	**6,061**
Current liabilities					
Trade and other payables		268,497	206,188	231,944	171,924
Interest-bearing loans and borrowings	3	108,199	144,508	93,467	120,493
Income tax payable		906	859	783	716
Provisions		505	208	436	174
Undrawn dividends of previous years		2,142	2,202	1,850	1,836
Derivative financial instruments		1,142	606	986	505
		381,391	**354,571**	**329,466**	**295,648**
Total liabilities		**389,197**	**361,840**	**336,210**	**301,709**
Total equity and liabilities		**490,539**	**473,786**	**423,826**	**395,220**

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 2018 USD'000	Jan-Sep 2017 USD'000	Jan-Sep 2018 EUR'000	Jan-Sep 2017 EUR'000
Revenue		1,136,630	1,064,253	951,561	955,031
Cost of sales		(1,078,958)	(1,013,616)	(903,279)	(909,590)
Gross profit		**57,672**	**50,637**	**48,282**	**45,441**
Distribution expenses		(7,896)	(7,219)	(6,610)	(6,478)
Administrative expenses		(29,078)	(20,279)	(24,344)	(18,198)
Other income		4,464	327	3,737	293
Other expenses		(8,187)	(3,997)	(6,854)	(3,587)
Operating profit		**16,975**	**19,469**	**14,211**	**17,471**
Finance income		1,181	929	989	834
Finance expenses		(8,716)	(11,066)	(7,297)	(9,931)
Finance income/ (expenses) – net		**(7,535)**	**(10,137)**	**(6,308)**	**(9,097)**
Profit before income tax		**9,440**	**9,332**	**7,903**	**8,374**
Income tax expense	4	(3,955)	(2,240)	(3,311)	(2,010)
Profit for the period		**5,485**	**7,092**	**4,592**	**6,364**
Attributable to:					
Equity holders of the Company		5,909	5,658	4,947	5,078
Non-controlling interest		(424)	1,434	(355)	1,287
		5,485	**7,092**	**4,592**	**6,365**
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	**0.60**	**0.58**	**0.51**	**0.52**
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(9,414)	2,501	(4,997)	(7,690)
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		**(3,929)**	**9,593**	**(405)**	**(1,325)**
Attributable to:					
Equity holders of the Company		(6,417)	8,417	(2,879)	(1,637)
Non-controlling interest		2,488	1,176	2,474	312
		(3,929)	**9,593**	**(405)**	**(1,325)**

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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 2017	**11,114**	**5,996**	**81,827**	**(12,699)**	**86,238**	**6,277**	**92,515**
Currency translation differences	-	-	-	9,120	9,120	1,815	10,935
Profit for the period	-	-	10,470	-	10,470	3,363	13,833
Total recognized income and expense for 2017	**-**	**-**	**10,470**	**9,120**	**19,590**	**5,178**	**24,768**
Dividend relating to prior years	-	-	(4,697)	-	(4,697)	(640)	(5,337)
Balance at 31 December 2017	**11,114**	**5,996**	**87,600**	**(3,579)**	**101,131**	**10,815**	**111,946**
Balance at 1 January 2018	**11,114**	**5,996**	**87,600**	**(3,579)**	**101,131**	**10,815**	**111,946**
Currency translation differences	-	-	-	(12,326)	(12,326)	2,912	(9,414)
Profit for the period	-	-	5,909	-	5,909	(424)	5,485
Total recognized income and expense for 2018	**-**	**-**	**5,909**	**(12,326)**	**(6,417)**	**2,488**	**(3,929)**
Dividend relating to prior years	-	-	(6,107)	-	(6,107)	(568)	(6,675)
Balance at 30 September 2018	**11,114**	**5,996**	**87,402**	**(15,905)**	**88,607**	**12,735**	**101,342**

	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 2017	**9,785**	**4,974**	**62,892**	**4,161**	**81,812**	**5,955**	**87,767**
Currency translation differences	-	-	-	(2,589)	(2,589)	677	(1,912)
Profit for the period	-	-	9,271	-	9,271	2,973	12,244
Total recognized income and expense for 2017	**-**	**-**	**9,271**	**(2,589)**	**6,682**	**3,650**	**10,332**
Dividend relating to prior years	-	-	(4,000)	-	(4,000)	(588)	(4,588)
Balance at 31 December 2017	**9,785**	**4,974**	**68,163**	**1,572**	**84,494**	**9,017**	**93,511**
Balance at 1 January 2018	**9,785**	**4,974**	**68,163**	**1,572**	**84,494**	**9,017**	**93,511**
Currency translation differences	-	-		(7,826)	(7,826)	2,829	(4,997)
Profit for the period	-	-	4,947	-	4,947	(355)	4,592
Total recognized income and expense for 2018	**-**		**4,947**	**(7,826)**	**(2,879)**	**2,474**	**(405)**
Dividend relating to prior years	-	-	(5,000)	-	(5,000)	(490)	(5,490)
Balance at 30 September 2018	**9,785**	**4,974**	**68,110**	**(6,254)**	**76,615**	**11,001**	**87,616**

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

Consolidated cash flows statement

	Jan-Sep 2018	Jan-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Cash flows from operating activities	**USD'000**	**USD'000**	**EUR'000**	**EUR'000**
Profit before tax	9,440	9,332	7,903	8,374
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	1,721	994	1,441	892
Interest income	(1,181)	(929)	(989)	(834)
Interest expenses	8,716	11,066	7,297	9,931
Fair value (gain)/losses on derivative financial instruments, net	544	(1,043)	483	(993)
Movements in provisions and allowances	297	-	262	-
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	8,433	29,307	513	45,087
Decrease/(Increase) in inventories	(32,471)	54,780	(33,691)	73,232
(Decrease) in trade and other payables	51,047	(69,643)	53,395	(96,286)
Interest received	1,181	929	989	834
Interest paid	(8,716)	(11,066)	(7,297)	(9,931)
Income tax paid	(3,274)	(2,240)	(2,741)	(2,010)
Net cash flows used in operating activities	**35,736**	**21,487**	**27,565**	**28,296**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	37	6	32	5
Purchases of property, plant and equipment and intangible assets	(1,886)	(14,727)	(2,079)	(12,262)
Acquisition of a subsidiary	(2,975)		(2,570)	
Proceeds from cash deposits	200	100	173	85
Net cash flows from / (used in) investing activities	**(4,624)**	**(14,621)**	**(4,444)**	**(12,172)**
Cash flows from financing activities				
Borrowings repaid	(35,772)	1,507	(26,343)	(10,861)
Dividends paid to equity holders of the parent	(3,670)		(3,150)	
Dividends paid to the Minority shareholders	(568)	640	(490)	588
Net cash flows (used in) / from financing activities	**(40,010)**	**2,148 -**	**(29,983)**	**(10,273)**
Net decrease in cash and cash equivalents	**(8,898)**	**9,014 -**	**(6,863)**	**5,851**
Cash and cash equivalents at beginning of the year	33,329	17,543	27,790	16,642
Exchange gains / (losses) on cash	-		-	-
Cash and cash equivalents at end of the period	**24,431**	**26,557**	**20,927**	**22,493**

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Notes to the consolidated financial statements (continued)

1. General principles

These interim consolidated financial statements for 9 months ended 30 September 2018 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 2017.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2017: 9,785 thousand shares) with a value of USD 1.1358 per share (2017: USD 1.1358 per share) and with value of EUR 1.00 per share (2017: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	30.09.2018 USD'000	31.12.2017 USD'000	30.09.2018 EUR'000	31.12.2017 EUR'000
Non-current				
Bonds	-	-	-	-
Bank borrowings	7,806	7,233	6,744	6,031
Finance lease liabilities	-	36	-	30
	7,806	**7,269**	**6,744**	**6,061**
Current				
Bonds	9,416	9,711	8,135	8,097
Bank borrowings	98,739	134,759	85,294	112,364
Other borrowings	-	-	-	-
Finance lease liabilities	44	38	38	32
	108,199	**144,508**	**93,467**	**120,493**
Total borrowings	**116,005**	**151,777**	**100,211**	**126,554**

As at 30 September 2018, the undrawn credit facilities amount to **USD 81.2 M.**

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 2018 is 41.9% (the estimated tax rate for 9 months ended 30 September 2017 was 24%). 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-Sep 2018 USD'000	Jan-Jun 2017 USD'000	Jan-Sep 2018 EUR'000	Jan-Jun 2017 EUR'000
Profit attributable to equity holders of the Company	5,909	5,658	4,947	5,078
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.60	0.58	0.51	0.52

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 2018, 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 2018.