ELKO GRUPA AS

Unaudited Consolidated Financial Statements
For 12 months ended 31 December 2018

Structure

AS ELKO Grupa Management report on interim consolidated financial statements for 12 months period ended 31 December 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 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 2018 reached USD 1 769m (EUR 1 497m) which is a 11% 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 82.98m (EUR 70.26m), an increase of 6% 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 31 December 2018.

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 December 31, 2018 and of its financial operations for the period ended 31 December 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

Consolidated balance sheet

	Note	31.12.2018	31.12.2017	31.12.2018	31.12.2017
ASSETS		**USD'000**	**USD'000**	**EUR'000**	**EUR'000**
Non-current assets					
Property, plant and equipment		4,516	19,526	3,944	16,449
Intangible assets		968	912	846	760
Goodwill on acquisition of subsidiary		1,767	1,759	1,544	1,467
Long term loans		81	-	70	-
		7,332	**22,197**	**6,404**	**18,676**
Current assets					
Inventories		170,512	187,777	148,919	156,572
Current income tax receivable		2,859	3,765	2,497	3,140
Trade and other receivables		247,667	225,451	216,303	187,986
Derivative financial instruments		605	167	528	139
Cash deposits		1,500	1,100	1,310	917
Cash and cash equivalents		51,107	33,329	44,635	27,790
		474,250	**451,589**	**414,192**	**376,544**
Total assets		**481,582**	**473,786**	**420,596**	**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		(6,830)	(3,579)	2,488	1,572
Retained earnings		91,179	87,600	71,364	68,163
		101,459	**101,131**	**88,611**	**84,494**
Non-controlling interest in equity		**9,368**	**10,815**	**8,182**	**9,017**
Total equity	2	**110,827**	**111,946**	**96,792**	**93,511**
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		888	7,269	776	6,061
	3	**888**	**7,269**	**776**	**6,061**
Current liabilities					
Trade and other payables		258,538	208,390	225,798	173,760
Interest-bearing loans and borrowings	3	109,740	144,508	95,843	120,493
Income tax payable		591	859	516	716
Provisions		948	208	828	174
Derivative financial instruments		50	606	43	505
		369,867	**354,571**	**323,028**	**295,648**
Total liabilities		**370,755**	**361,840**	**323,804**	**301,709**
Total equity and liabilities		**481,582**	**473,786**	**420,596**	**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-Dec 2018 USD'000	Jan-Dec 2017 USD'000	Jan-Dec 2018 EUR'000	Jan-Dec 2017 EUR'000
Revenue		1,769,106	1,593,161	1,497,935	1,408,500
Cost of sales		(1,686,126)	(1,514,836)	(1,427,675)	(1,339,253)
Gross profit		**82,980**	**78,325**	**70,260**	**69,247**
Distribution expenses		(13,082)	(9,810)	(11,077)	(8,673)
Administrative expenses		(41,612)	(30,794)	(35,233)	(27,209)
Other income		2,034	472	1,723	417
Other expenses		(3,746)	(6,609)	(3,172)	(5,843)
Operating profit		**26,574**	**31,584**	**22,501**	**27,939**
Finance income		1,566	547	1,325	484
Finance expenses		(11,290)	(15,894)	(9,559)	(14,053)
Finance income/ (expenses) – net		**(9,724)**	**(15,347)**	**(8,234)**	**(13,569)**
Profit before income tax		**16,850**	**16,237**	**14,267**	**14,370**
Income tax expense	4	(7,397)	(2,404)	(6,263)	(2,126)
Profit for the period		**9,453**	**13,833**	**8,004**	**12,244**
Attributable to:					
Equity holders of the Company		9,686	10,470	8,201	9,271
Non-controlling interest		(233)	3,363	(197)	2,973
		9,453	**13,833**	**8,004**	**12,244**
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	**0.99**	**1.07**	**0.84**	**0.95**
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(4,115)	10,935	577	(1,912)
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		**5,338**	**24,768**	**8,581**	**10,332**
Attributable to:					
Equity holders of the Company		6,435	19,590	9,117	6,682
Non-controlling interest		(879)	5,178	(345)	3,650
		5,556	**24,768**	**8,772**	**10,332**

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Egons Mednis
Chairman of the Board

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Transla-tion 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	-	-	-	(3,251)	(3,251)	(864)	(4,115)
Acquisition of subsidiaries	-	-			-	218	218
Profit for the period	-	-	9,686	-	9,686	(233)	9,453
Total recognized income and expense for 2018	**-**	**-**	**9,686**	**(3,251)**	**6,435**	**(879)**	**5,556**
Dividend relating to prior years	-	-	(6,107)	-	(6,107)	(568)	(6,675)
Balance at 31 December 2018	**11,114**	**5,996**	**91,179**	**(6,830)**	**101,459**	**9,368**	**110,827**

	Share capital	Share premium	Retained earnings	Transla-tion 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	-	-	-	916	916	(339)	577
Acquisition of subsidiaries	-	-			-	191	191
Profit for the period	-	-	8,201	-	8,201	(197)	8,004
Total recognized income and expense for 2018	**-**	**-**	**8,201**	**916**	**9,117**	**(345)**	**8,772**
Dividend relating to prior years	-	-	(5,000)	-	(5,000)	(490)	(5,490)
Balance at 31 December 2018	**9,785**	**4,974**	**71,364**	**2,488**	**88,611**	**8,182**	**96,792**

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

Consolidated cash flows statement

Cash flows from operating activities	Jan-Dec 2018 USD'000	Jan-Dec 2017 USD'000	Jan-Dec 2018 EUR'000	Jan-Dec 2017 EUR'000
Profit before tax	16,850	16,537	14,267	14,620
Adjustment to reconcile profit before tax to net cash flows		-		-
Depreciation and amortization	2,272	1,656	1,923	1,464
Interest income	(1,566)	(547)	(1,325)	(484)
Interest expenses	11,290	15,894	9,559	14,053
Fair value (gain)/losses on derivative financial instruments, net	(994)	(635)	(851)	(654)
Movements in provisions and allowances	739	208	654	174
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	(22,216)	(29,885)	(28,317)	(2,024)
Decrease/(Increase) in inventories	17,265	76,191	7,653	93,848
(Decrease) in trade and other payables	34,661	(65,507)	43,021	(96,548)
Interest received	1,566	547	1,325	484
Interest paid	(11,290)	(15,894)	(9,559)	(14,053)
Income tax paid	2,118	(2,404)	1,850	(2,126)
Net cash flows used in operating activities	**50,695**	**(3,839)**	**40,200**	**8,754**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	4,346	43	3,795	37
Purchases of property, plant and equipment and intangible assets	12,682	(1,546)	10,496	(1,130)
Acquisition of a subsidiary	(2,943)	(8,136)	(2,570)	(7,129)
Proceeds from cash deposits	400	100	349	85
Net cash flows from / (used in) investing activities	**14,485**	**(9,539)**	**12,070**	**(8,137)**
Cash flows from financing activities				
Borrowings repaid	(41,149)	32,378	(29,935)	13,283
Dividends paid to equity holders of the parent	(5,686)	(2,574)	(5,000)	(2,164)
Dividends paid to the Minority shareholders	(568)	(640)	(490)	(588)
Net cash flows (used in) / from financing activities	**(47,402)**	**29,164**	**(35,425)**	**10,531**
Net decrease in cash and cash equivalents	**17,778**	**15,786**	**16,845**	**11,148**
Cash and cash equivalents at beginning of the year	33,329	17,543	27,790	16,642
Cash and cash equivalents at end of the period	**51,107**	**33,329**	**44,635**	**27,790**

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 12 months ended 31 December 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

	31.12.2018 USD'000	31.12.2017 USD'000	31.12.2018 EUR'000	31.12.2017 EUR'000
Non-current				
Bonds	-	-	-	-
Bank borrowings	843	7,233	737	6,031
Finance lease liabilities	45	36	39	30
	888	**7,269**	**776**	**6,061**
Current				
Bonds	-	9,711	-	8,097
Bank borrowings	109,709	134,759	95,816	112,364
Other borrowings	-	-	-	-
Finance lease liabilities	31	38	27	32
	109,740	**144,508**	**95,843**	**120,493**
Total borrowings	**110,628**	**151,777**	**96,619**	**126,554**

As at 31 December 2018, the undrawn credit facilities amount to **USD 108.6 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 12 months ended 31 December 2018 is 43.9% (the estimated tax rate for 12 months ended 31 December 2017 was 14.6%). 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 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 2018 USD'000	Jan-Dec 2017 USD'000	Jan-Dec 2018 EUR'000	Jan-Dec 2017 EUR'000
Profit attributable to equity holders of the Company	9,686	10,470	8,201	9,271
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.99	1.07	0.84	0.95

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 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 31 December 2018.