



ELKO GRUPA AS

Unaudited Consolidated Financial Statements
For 3 months ended 31 March 2019

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AS ELKO Grupa Management report on interim consolidated financial statements for 3 months period ended 31 March 2019

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 2019 reached USD 393m (EUR 345m) which is a 21% increase over the corresponding period in 2018. 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 19.5 m (EUR 17.2m), 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

There is no significant events after reporting period.

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 March 2019.



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 March 31, 2019 and of its financial operations for the period ended 31 March 2019. 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	31.03.2019 USD'000	31.12.2018 USD'000	31.03.2019 EUR'000	31.12.2018 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		4,327	4,516	3,852	3,944
Intangible assets		1,163	968	1,036	846
Goodwill on acquisition of subsidiary		1,620	1,768	1,442	1,544
Long term loans		96	81	86	70
		7,206	7,333	6,416	6,404
Current assets					
Inventories		170,601	170,512	151,848	148,919
Current income tax receivable		2,744	1,806	2,442	1,577
Trade and other receivables		297,166	244,461	264,498	213,504
Derivative financial instruments		1	605	1	528
Cash deposits		1,998	1,500	1,781	1,310
Cash and cash equivalents		11,682	51,107	10,396	44,635
		484,192	469,991	430,966	410,473
Total assets		491,398	477,324	437,382	416,877
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		(8,484)	(9,616)	2,721	53
Retained earnings		92,380	90,955	72,424	71,169
		101,006	98,449	89,904	85,981
Non-controlling interest in equity		9,592	9,368	8,537	8,182
Total equity	2	110,598	107,817	98,441	94,163
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		941	602	837	526
	3	941	602	837	526
Current liabilities					
Trade and other payables		267,060	257,290	237,704	224,708
Interest-bearing loans and borrowings	3	110,685	110,026	98,519	96,093
Income tax payable		897	591	798	516
Provisions		986	948	877	828
Derivative financial instruments		231	50	206	43
		379,859	368,905	338,104	322,188
Total liabilities		380,800	369,507	338,941	322,714
Total equity and liabilities		491,398	477,324	437,382	416,877

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

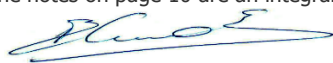


Egons Mednis
 Chairman of the Board

Consolidated income statement

	Note	Jan-Mar 2019 USD'000	Jan-Mar 2018 USD'000	Jan-Mar 2019 EUR'000	Jan-Mar 2018 EUR'000
Revenue		392,543	325,468	345,664	264,765
Cost of sales		(373,007)	(306,944)	(328,461)	(249,696)
Gross profit		19,536	18,524	17,203	15,069
Distribution expenses		(3,991)	(2,254)	(3,515)	(1,833)
Administrative expenses		(11,074)	(9,281)	(9,752)	(7,551)
Other income		1,816	398	1,599	323
Other expenses		(1,279)	(804)	(1,126)	(653)
Operating profit		5,008	6,583	4,409	5,355
Finance income		222	587	196	477
Finance expenses		(2,335)	(3,338)	(2,056)	(2,715)
Finance income/ (expenses) – net		(2,113)	(2,751)	(1,860)	(2,238)
Profit before income tax		2,895	3,832	2,549	3,117
Income tax expense	4	(1,015)	(2,113)	(894)	(1,719)
Profit for the period		1,880	1,719	1,655	1,398
Attributable to:					
Equity holders of the Company		1,425	2,098	1,255	1,707
Non-controlling interest		455	(380)	400	(309)
		1,880	1,718	1,655	1,398
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	0.15	0.21	0.13	0.17
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		901	3,119	2,623	170
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		2,781	4,837	4,278	1,568
Attributable to:					
Equity holders of the Company		2,557	4,878	3,923	1,840
Non-controlling interest		224	(41)	355	(272)
		2,781	4,837	4,278	1,568

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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 2018	11,114	5,996	87,600	(3,579)	101,131	10,815	111,946
Effect of adoption of new accounting standards	-	-	(128)	-	(128)	-	(128)
Balance at 1 January 2018 (restated)	11,114	5,996	87,472	(3,579)	101,003	10,815	111,818
Other comprehensive income	-	-	-	(6,037)	(6,037)	(646)	(6,683)
Profit for the period	-	-	9,590	-	9,590	(233)	9,357
Total recognized income and expense for 2018	11,114	5,996	97,062	(9,616)	104,556	9,936	114,492
Dividend relating to prior years	-	-	(6,107)	-	(6,107)	(568)	(6,675)
Balance at 31 December 2018	11,114	5,996	90,955	(9,616)	98,449	9,368	107,817
Balance at 1 January 2019	11,114	5,996	90,955	(9,616)	98,449	9,368	107,817
Other comprehensive income	-	-	-	1,132	1,132	(231)	901
Acquisition/sell of subsidiaries	-	-	-	-	-	-	-
Profit for the period	-	-	1,425	-	1,425	455	1,880
Total recognized income and expense for 2019	-	-	1,425	1,132	2,557	224	2,781
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2019	11,114	5,996	92,380	(8,484)	101,006	9,592	110,598

	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 2018	9,785	4,974	68,163	1,572	84,494	9,017	93,511
Effect of adoption of new accounting standards	-	-	(114)	-	(114)	-	(114)
Balance at 1 January 2018 (restated)	9,785	4,974	68,049	1,572	84,380	9,017	93,397
Other comprehensive income	-	-	-	(1,519)	(1,519)	(148)	(1,667)
Acquisition of subsidiaries	-	-	-	-	-	-	-
Profit for the period	-	-	8,120	-	8,120	(197)	7,923
Total recognized income and expense for 2018	-	-	8,120	(1,519)	6,601	(345)	6,256
Dividend relating to prior years	-	-	(5,000)	-	(5,000)	(490)	(5,490)
Balance at 31 December 2017	9,785	4,974	71,169	53	85,981	8,182	94,163
Balance at 1 January 2018	9,785	4,974	71,169	53	85,981	8,182	94,163
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2018 (restated)	9,785	4,974	71,169	53	85,981	8,182	94,163
Other comprehensive income	-	-	-	2,668	2,668	(45)	2,623
Acquisition of subsidiaries	-	-	-	-	-	-	-
Profit for the period	-	-	1,255	-	1,255	400	1,655
Total recognized income and expense for 2018	-	-	1,255	2,668	3,923	355	4,278
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2019	9,785	4,974	72,424	2,721	89,904	8,537	98,441

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

Consolidated cash flows statement

	Jan-Mar 2019	Jan-Mar 2018	Jan-Mar 2019	Jan-Mar 2018
	USD'000	USD'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before tax	2,895	3,832	2,549	3,117
Adjustment to reconcile profit before tax to net cash flows				-
Depreciation and amortization	441	545	388	444
Interest income	(222)	(587)	(196)	(477)
Interest expenses	2,335	3,338	2,056	2,715
Fair value (gain)/losses on derivative financial instruments, net	(423)	(460)	(364)	(383)
Movements in provisions and allowances	38	(3)	49	(7)
Gain on disposal of property, plant and equipment	(6)	-	(5)	
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	(52,705)	(47,105)	(50,994)	(33,142)
Decrease/(Increase) in inventories	(89)	12,074	(2,929)	13,967
(Decrease)/ Increase in trade and other payables	11,154	21,569	15,848	10,525
Interest received	222	587	196	477
Interest paid	(2,335)	(3,338)	(2,056)	(2,715)
Income tax paid	(1,230)	(2,113)	(1,083)	(1,719)
Net cash flows used in operating activities	(39,925)	(11,661)	(36,541)	(7,199)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	-	2	-	2
Purchases of property, plant and equipment and intangible assets	-	(619)	-	(139)
Increase / (Decrease) from cash deposits	(498)	-	(435)	
Net cash flows from / (used in) investing activities	(498)	(617)	(435)	(137)
Cash flows from financing activities				
(Borrowings repaid)/ Received	998	11,159	2,737	5,688
Net cash flows (used in) / from financing activities	998	11,159	2,737	5,688
Net decrease in cash and cash equivalents	(39,425)	(1,120)	(34,239)	(1,648)
Cash and cash equivalents at beginning of the year	51,107	33,329	44,635	27,790
Cash and cash equivalents at end of the period	11,682	32,209	10,396	26,142

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 3 months ended 31 March 2019 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 2018.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2018: 9,785 thousand shares) with a value of USD 1.1358 per share (2018: USD 1.1358 per share) and with value of EUR 1.00 per share (2018: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	31.03.2019 USD'000	31.12.2018 USD'000	31.03.2019 EUR'000	31.12.2018 EUR'000
Non-current				
Bonds	-	-	-	-
Bank borrowings	896	557	798	487
Finance lease liabilities	45	45	39	39
	941	602	837	526
Current				
Bonds	-	-	-	-
Bank borrowings	110,654	109,995	98,492	96,066
Other borrowings	-	-	-	-
Finance lease liabilities	31	31	27	27
	110,685	110,026	98,519	96,093
Total borrowings	111,626	110,628	99,356	96,619

As at 31 March 2019, the undrawn credit facilities amount to **USD 142.7 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 3 months ended 31 March 2019 is 35 % (the estimated tax rate for 3 months ended 31 March 2018 was 55%). 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-Mar 2019 USD'000	Jan-Mar 2018 USD'000	Jan-Mar 2019 EUR'000	Jan-Mar 2018 EUR'000
Profit attributable to equity holders of the Company	1,425	2,098	1,255	1,707
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.15	0.21	0.13	0.17

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 March 2019, 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 March 2019.