



ELKO GRUPA AS

Unaudited Consolidated Financial Statements
For 3 months ended 31 March 2020

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AS ELKO Grupa Management report on interim consolidated financial statements for 3 months period ended 31 March 2020

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 three months of 2020 reached USD 516m (EUR 468m) which is a 31.34% increase over the corresponding period in 2019. Gross profit reached USD 26.6m (EUR 24.1m), an increase of 36.2% compared to the same period of 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, ELKO Rus LTD, 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

In the beginning of May 2020 there was a theft case in warehouse located in Riga of AS ELKO Group. From this warehouse the Company serves clients in the Baltic region and Poland. As these goods were fully insured, this case will have no effect on company's continued operations.



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, 2020 and of its financial operations for the period ended 31 March 2020. 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	31.03.2020 USD'000	31.12.2019 USD'000	31.03.2020 EUR'000	31.12.2019 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		5,127	5,407	4,680	4,813
Intangible assets		1,140	1,094	1,041	973
Right-of-use assets		26,707	26,982	24,376	24,019
Goodwill on acquisition of subsidiary		1,477	1,603	1,348	1,427
Long term loans		237	138	216	123
		34,688	35,224	31,661	31,355
Current assets					
Inventories		174,965	168,896	159,698	150,343
Current income tax receivable		3,813	1,152	3,480	1,026
Trade and other receivables		259,780	268,527	237,112	239,030
Derivative financial instruments		-	-	-	-
Cash deposits		1,990	2,000	1,803	1,779
Cash and cash equivalents		13,531	27,328	12,364	24,328
		454,079	467,903	414,457	416,506
Total assets		488,767	503,127	446,118	447,861
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		(14,717)	(9,334)	(988)	2,219
Retained earnings		70,184	66,904	52,473	49,498
		72,577	74,680	66,244	66,476
Non-controlling interest in equity		11,528	11,270	10,522	10,032
Total equity	2	84,105	85,950	76,766	76,508
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		239	245	218	218
Interest-bearing loans from related		21,108	20,817	19,266	18,531
Lease liabilities		21,111	21,111	18,792	18,792
	3	42,458	42,173	38,276	37,541
Current liabilities					
Trade and other payables		213,924	232,744	195,257	207,178
Interest-bearing loans and borrowings	3	133,224	120,106	122,223	106,913
Interest-bearing loans from related	3	6,101	12,613	5,568	11,228
Lease liabilities	3	6,388	6,388	5,686	5,686
Income tax payable		1,755	2,262	1,602	2,014
Provisions		807	884	736	787
Derivative financial instruments		5	7	4	6
		362,204	375,004	331,076	333,812
Total liabilities		404,662	417,177	369,352	371,353
Total equity and liabilities		488,767	503,127	446,118	447,861

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 2020 USD'000	Jan-Mar 2019 USD'000	Jan-Mar 2020 EUR'000	Jan-Mar 2019 EUR'000
Revenue		515,552	392,543	467,610	345,664
Cost of sales		(488,947)	(373,007)	(443,479)	(328,461)
Gross profit		26,605	19,536	24,131	17,203
Distribution expenses		(4,378)	(3,991)	(3,971)	(3,515)
Administrative expenses		(11,507)	(11,074)	(10,437)	(9,752)
Other income		1,276	1,816	1,157	1,599
Other expenses		(3,544)	(1,279)	(3,214)	(1,126)
Operating profit		8,452	5,008	7,666	4,409
Finance income		87	222	79	196
Finance expenses		(3,199)	(2,335)	(2,901)	(2,056)
Finance income/ (expenses) – net		(3,112)	(2,113)	(2,822)	(1,860)
Profit before income tax		5,340	2,895	4,844	2,549
Income tax expense	4	(1,385)	(1,015)	(1,256)	(894)
Profit for the period		3,955	1,880	3,588	1,655
Attributable to:					
Equity holders of the Company		3,280	1,425	2,975	1,255
Non-controlling interest		675	455	613	400
		3,955	1,880	3,588	1,655
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	0.34	0.98	0.30	0.83
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(5,800)	(6,683)	(3,330)	(1,667)
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		(1,845)	2,674	258	6,256
Attributable to:					
Equity holders of the Company		(2,103)	3,553	(232)	6,601
Non-controlling interest		258	(879)	490	(345)
		(1,845)	2,674	258	6,256

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 2019	11,114	5,996	90,955	(9,616)	98,449	9,368	107,817
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2019 (restated)	11,114	5,996	90,955	(9,616)	98,449	9,368	107,817
Other comprehensive income	-	-	-	282	282	(286)	(4)
Profit for the period	-	-	16,500	-	16,500	3,292	19,792
Total recognized income and expense for 2019	11,114	5,996	107,455	(9,334)	115,231	12,374	127,605
Dividend relating to prior years	-	-	(40,551)	-	(40,551)	(1,104)	(41,655)
Balance at 31 December 2019	11,114	5,996	66,904	(9,334)	74,680	11,270	85,950
Balance at 1 January 2020	11,114	5,996	66,904	(9,334)	74,680	11,270	85,950
Other comprehensive income	-	-	-	(5,383)	(5,383)	(417)	(5,800)
Profit for the period	-	-	3,280	-	3,280	675	3,955
Total recognized income and expense for 2020	-	-	3,280	(5,383)	(2,103)	258	(1,845)
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2020	11,114	5,996	70,184	(14,717)	72,577	11,528	84,105

	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 2019	9,785	4,974	71,169	53	85,981	8,182	94,163
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2019 (restated)	9,785	4,974	71,169	53	85,981	8,182	94,163
Other comprehensive income	-	-	-	2,166	2,166	(111)	2,055
Profit for the period	-	-	14,739	-	14,739	2,941	17,680
Total recognized income and expense for 2019	-	-	14,739	2,166	16,905	2,830	19,735
Dividend relating to prior years	-	-	(36,410)	-	(36,410)	(980)	(37,390)
Balance at 31 December 2019	9,785	4,974	49,498	2,219	66,476	10,032	76,508
Balance at 1 January 2020	9,785	4,974	49,498	2,219	66,476	10,032	76,508
Other comprehensive income	-	-	-	(3,207)	(3,207)	(123)	(3,330)
Profit for the period	-	-	2,975	-	2,975	613	3,588
Total recognized income and expense for 2020	-	-	2,975	(3,207)	(232)	490	258
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2020	9,785	4,974	52,473	(988)	66,244	10,522	76,766

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

Consolidated cash flows statement

	Jan-Mar 2020 USD'000	Jan-Mar 2019 USD'000	Jan-Mar 2020 EUR'000	Jan-Mar 2019 EUR'000
Cash flows from operating activities				
Profit before tax	5,340	2,895	4,844	2,549
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	472	441	428	388
Loss on disposal of property, plant and equipment				
Interest income	(87)	(222)	(79)	(196)
Interest expenses	3,199	2,335	2,901	2,056
Fair value (gain)/losses on derivative financial instruments, net	(2)	(423)	(2)	(364)
Movements in provisions and allowances	(73)	38	(51)	49
Gain on disposal of property, plant and equipment	(14)	(6)	(13)	(5)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	6,086	(52,705)	(536)	(50,994)
Decrease/(Increase) in inventories	(6,069)	(89)	(9,355)	(2,929)
(Decrease)/ Increase in trade and other payables	(23,390)	11,154	(14,909)	15,848
Interest received	87	222	79	196
Interest paid	(3,199)	(2,335)	(2,901)	(2,056)
Income tax paid	(2,453)	(1,230)	(2,225)	(1,083)
Net cash flows used in operating activities	(20,103)	(39,925)	(21,819)	(36,541)
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets	(702)	-	(640)	-
Sale of / (Acquisition) of a subsidiary	28	-	26	-
Increase / (Decrease) from cash deposits	(10)	(498)	(9)	(435)
Net cash flows from / (used in) investing activities	(684)	(498)	(623)	(435)
Cash flows from financing activities				
(Borrowings repaid)/ Received	6,990	998	10,478	2,737
Net cash flows (used in) / from financing activities	6,990	998	10,478	2,737
Net decrease in cash and cash equivalents	(13,797)	(39,425)	(11,964)	(34,239)
Cash and cash equivalents at beginning of the year	27,328	51,107	24,328	44,635
Exchange gains / (losses) on cash	-	-	-	-
Cash and cash equivalents at end of the period	13,531	11,682	12,364	10,396

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 2020 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 2019.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2019: 9,785 thousand shares) with a value of USD 1.1358 per share (2019: USD 1.1358 per share) and with value of EUR 1.00 per share (2019: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	31.03.2020	31.12.2019	31.03.2020	31.12.2019
	USD'000	USD'000	EUR'000	EUR'000
Non-current				
Bank borrowings	205	211	188	188
Borrowings from shareholders	21,108	20,817	19,266	18,531
Lease liabilities IFRS16	21,111	21,111	18,792	18,792
Finance lease liabilities	34	34	30	30
	42,458	42,173	38,276	37,541
Current				
Bonds	-	-	-	-
Bank borrowings	133,191	120,073	122,193	106,883
Borrowings from shareholders	6,101	12,613	5,568	11,228
Other borrowings	-	-	-	-
Lease liabilities IFRS16	6,388	6,388	5,686	5,686
Finance lease liabilities	33	33	30	30
	145,713	139,107	133,477	123,827
Total borrowings	188,171	181,280	171,753	161,368

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 2020 is 25.9 % (the estimated tax rate for 3 months ended 31 March 2019 was 35%). 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 2019	Jan-Mar 2019	Jan-Dec 2019	Jan-Mar 2019
	USD'000	USD'000	EUR'000	EUR'000
Profit attributable to equity holders of the Company	3,280	1,425	2,975	1,255
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.34	0.15	0.30	0.13

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 2020, 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

In the beginning of May 2020 there was a theft case in warehouse located in Riga of AS ELKO Group. From this warehouse the Company serves clients in the Baltic region and Poland. As these goods were fully insured, this case will have no effect on company's continued operations. Otherwise, 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 2020.