



Akciju Sabiedrība ELKO GRUPA

Unaudited Consolidated Financial Statements
For 9 months ended 30 September 2023

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Akciju Sabiedrība ELKO Grupa Management report on operational consolidated financial statements for 9 months period ended 30 September 2023

Business activities

Akciju sabiedrība ELKO Grupa and its subsidiaries (hereinafter – the Company or ELKO) is one of the largest distributors of IT and consumer electronics products and solutions in Europe and Central Asia. The Company's core business activity is the wholesale distribution of IT products such as smartphones and tablets, computer desktop components and peripherals, monitors, multimedia and software products, servers, network components and networking solutions, using the wide network of the Company's subsidiaries and cooperation partners. ELKO represents a broad range of vendors worldwide, including Lenovo, Apple, Intel, Huawei, Seagate, Western Digital, Asus, Acer, Samsung, LG and other global and local vendors.

Currently, ELKO employs more than 950 people and is headquartered in Riga, Latvia. The key to the parent company's success is the long-term strategy for cooperation with vendors developed over the years, a centralized purchase system, and the functionality of business processes and financial management.

Financial analysis

Akciju Sabiedrība ELKO Grupa consolidated turnover during the 9 months of 2023 reached USD 845.4m (EUR 780.6m), which is a 24.02% decrease over the corresponding period in 2022 which is explained by divesting of Russian operations in April 2022. Gross profit reached USD 58.2m (EUR 53.7m), a decrease of 46.4% compared to the same period of the previous year.

The year 2023 started with notable cool-down in major volume driver in IT industry – personal computing, while most of the other categories, including PC components, remained flat or in slight decline. Just a few selected value segments demonstrated strong growth (networking, software), but that was not enough to ensure market uptrend as such. Growing international pressure on exhausting sensitive technology availability to sanctioned subjects led to significantly increased investment in compliance capabilities and reduction of business even with medium & low risk counterparties to ensure full compliance with existing regulations.

Despite these market conditions most of ELKO geographies performed according to business targets set for the period, which was a result of strong focus on niche segments gaining traction amidst turbulent environment and exploring new customer channels. While most of the vendors have overcome the supply constraints experienced in pandemic period, there still remained a few major players in ELKO Group's portfolio where successful go-to-market strategy lacked support of adequate production capacity, limiting our availability to satisfy market demand, retaining positive upside for upcoming periods.

While it is expected that second half of the year will remain challenging, there is growing consensus on market recovery in second half of the year in volume product categories, driven by replacement cycle kicking in and supported by new resource-demanding technology roll-out, which, in combination with strong new vendor and product pipeline, allows to remain optimistic about future growth of ELKO Group.

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.

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 (until 20.02.2023), Gandalf Distribution AB, 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., 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, 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

There have been no subsequent events after the last date of the reporting period that would have a significant effect on Company's financial position as of 30 September 2023.



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 September 30, 2023, and of its financial operations for the period ended 30 September 2023. 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 income statement

	Note	Jan-Sept 2023 USD'000	Jan-Sept 2022 USD'000	Jan-Sept 2023 EUR'000	Jan-Sept 2022 EUR'000
Revenue		845,354	1,112,552	780,550	1,036,974
Cost of sales		(787,166)	(1,003,919)	(726,821)	(935,697)
Gross profit		58,188	108,633	53,729	101,277
Distribution expenses		(5,085)	(6,697)	(4,695)	(6,228)
Administrative expenses		(40,349)	(42,694)	(37,251)	(40,008)
Other income		6,122	2,424	5,637	2,005
Other expenses		(3,058)	(15,761)	(2,889)	(14,706)
Operating profit		15,818	45,905	14,531	42,340
Finance income		552	667	510	617
Finance expenses		(7,071)	(9,588)	(6,528)	(8,902)
Finance income/ (expenses) – net		(6,519)	(8,921)	(6,018)	(8,285)
Profit before income tax		9,299	36,984	8,513	34,055
Income tax expense	4	(1,130)	(8,059)	(1,043)	(7,448)
Profit for the period		8,169	28,925	7,470	26,607
Attributable to:					
Equity holders of the Company		7,462	27,397	6,817	25,172
Non-controlling interest		707	1,528	653	1,435
		8,169	28,925	7,470	26,607
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	0.75	2.77	0.69	2.57
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(2,003)	(13,901)	(1,441)	8,300
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		6,166	15,024	6,029	34,907
Attributable to:					
Equity holders of the Company		5,632	13,895	5,407	31,861
Non-controlling interest		534	(3,674)	622	(1,195)
		6,166	10,221	6,029	30,666

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



Egons Mednis
Chairman of the Board

Consolidated balance sheet

	Note	30.09.2023 USD'000	31.12.2022 USD'000	30.09.2023 EUR'000	31.12.2022 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		5,666	5,314	5,348	4,982
Intangible assets		1,836	2,029	1,733	1,902
Right-of-use assets		19,381	19,838	18,294	18,599
Goodwill on acquisition of subsidiary		1,976	2,044	1,865	1,917
Investments in associates		3,492	2,946	3,296	2,762
Long term loans		-	-	-	-
		32,351	32,171	30,536	30,162
Current assets					
Inventories		151,800	142,103	143,290	133,230
Current income tax receivable		2,184	1,017	2,061	953
Short term loans		752	842	710	789
Trade and other receivables		202,941	255,328	191,583	239,415
Derivative financial instruments		217	-	204	-
Cash deposits		3,128	3,131	2,953	2,935
Cash and cash equivalents		12,284	24,830	11,595	23,280
		373,306	427,251	352,396	400,602
Total assets		405,657	459,422	382,932	430,764
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		(16,030)	(14,200)	6,108	7,518
Retained earnings		106,883	120,113	81,075	93,106
		108,100	123,160	102,058	115,499
Non-controlling interest in equity		19,038	18,504	17,970	17,348
Total equity	2	127,138	141,664	120,028	132,847
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		21,244	21,412	20,053	20,075
Interest-bearing loans from related		49,876	40,984	47,079	38,425
Lease liabilities		16,113	16,113	15,107	15,107
	3	87,233	78,509	82,239	73,607
Current liabilities					
Trade and other payables		116,504	155,119	109,973	145,434
Interest-bearing loans and borrowings	3	66,646	74,516	63,036	69,862
Interest-bearing loans from related	3	-	-	-	-
Lease liabilities	3	3,827	4,167	3,588	3,907
Income tax payable		1,167	2,298	1,102	2,154
Provisions		3,142	3,096	2,966	2,903
Derivative financial instruments		-	53	-	50
		191,286	239,249	180,665	224,310
Total liabilities		278,519	317,758	262,904	297,917
Total equity and liabilities		405,657	459,422	382,932	430,764

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	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 2022	11,251	5,996	116,715	(9,966)	123,996	18,002	141,998
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2022 (restated)	11,251	5,996	116,715	(9,966)	123,996	18,002	141,998
Other comprehensive income	-	-	-	(4,234)	(4,234)	(239)	(4,473)
Employee shares	-	-	-	-	-	-	-
Profit for the period	-	-	36,747	-	36,747	3,616	40,363
Total recognized income and expense for 2022	11,251	5,996	153,462	(14,200)	156,509	21,379	177,888
Dividend relating to prior years	-	-	(33,349)	-	(33,349)	(522)	(33,871)
Disposal of subsidiary	-	-	-	-	-	(2,353)	(2,353)
Balance at 31 December 2022	11,251	5,996	120,113	(14,200)	123,160	18,504	141,664
Balance at 1 January 2023	11,251	5,996	120,113	(14,200)	123,160	18,504	141,664
Other comprehensive income	-	-	-	(1,830)	(1,830)	(173)	(2,003)
Employee shares	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	-	-	-	-	-
Profit for the period	-	-	7,462	-	7,462	707	8,169
Total recognized income and expense for 2023	-	-	7,462	(1,830)	5,632	534	6,166
Dividend relating to prior years	-	-	(20,692)	-	(20,692)	-	(20,692)
Balance at 30 September 2023	11,251	5,996	106,883	(16,030)	108,100	19,038	127,138

	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 2022	9,901	4,974	92,721	1,884	109,480	15,894	125,374
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2022 (restated)	9,901	4,974	92,721	1,884	109,480	15,894	125,374
Other comprehensive income	-	-	-	5,634	5,634	590	6,224
Profit for the period	-	-	34,553	-	34,553	3,432	37,985
Total recognized income and expense for 2022	-	-	34,553	5,634	40,187	4,022	44,209
Dividend relating to prior years	-	-	(34,168)	-	(34,168)	(490)	(34,658)
Disposal of subsidiary	-	-	-	-	-	(2,078)	(2,078)
Balance at 31 December 2022	9,901	4,974	93,106	7,518	115,499	17,348	132,847
Balance at 1 January 2023	9,901	4,974	93,106	7,518	115,499	17,348	132,847
Other comprehensive income	-	-	-	(1,410)	(1,410)	(31)	(1,441)
Profit for the period	-	-	6,817	-	6,817	653	7,470
Total recognized income and expense for 2023	-	-	6,817	(1,410)	5,407	622	6,029
Dividend relating to prior years	-	-	(18,848)	-	(18,848)	-	(18,848)
Balance at 30 September 2023	9,901	4,974	81,075	6,108	102,058	17,970	120,028

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

Consolidated cash flows statement

	Jan-Sept 2023	Jan-Sept 2022	Jan-Sept 2023	Jan-Sept 2022
	USD'000	USD'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before tax	9,299	36,984	8,513	34,055
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	2,065	2,172	1,907	2,039
Loss on disposal of property, plant and equipment				
Interest income	(552)	(667)	(510)	(617)
Interest expenses	7,071	9,588	6,528	8,902
Fair value (gain)/losses on derivative financial instruments, net	164	48	154	52
Movements in provisions and allowances	(486)	(698)	(437)	(257)
Share of net profit of associate and a joint venture	(648)	(2,353)	(598)	(2,078)
Loss/(Gain) on disposal of subsidiary	51	2,893	106	3,623
Gain on disposal of property, plant and equipment	(49)	(48)	(45)	(45)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	42,723	101,416	38,620	53,427
Decrease/(Increase) in inventories	(23,195)	40,433	(22,771)	6,403
(Decrease)/ Increase in trade and other payables	(23,987)	(108,137)	(20,718)	(52,048)
Interest received	552	667	510	617
Interest paid	(7,071)	(9,588)	(6,528)	(8,902)
Income tax paid	(2,042)	(6,262)	(1,895)	(5,677)
Net cash flows used in operating activities	3,895	66,448	2,835	39,494
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	49	49	45	46
Purchases of property, plant and equipment and intangible assets	(2,368)	(2,160)	(2,186)	(2,029)
Net cash outflow on disposal of subsidiary	(26)	-	(24)	-
Acquisition of a subsidiary	(252)	85	(236)	75
Increase / (Decrease) from cash deposits	(3)	1,938	(3)	1,988
Net cash flows from / (used in) investing activities	(2,600)	(89)	(2,404)	81
Cash flows from financing activities				
Proceeds from bank overdrafts, net	(10,023)	(66,846)	(8,533)	(35,160)
Cash increase (decrease) due to disposal of subsidiary	-	(10,471)	-	(10,037)
Dividends paid to equity holders of the parent	(690)	(475)	(630)	(396)
Net cash flows (used in) / from financing activities	(10,714)	(77,792)	(9,163)	(45,593)
Net decrease in cash and cash equivalents	(9,418)	(11,433)	(8,732)	(6,017)
Cash and cash equivalents at beginning of the year	24,830	40,053	23,280	35,364
Exchange gains / (losses) on cash	-	-	-	-
Cash and cash equivalents at end of the period	15,412	28,620	14,548	29,347

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 9 months ended 30 September 2023 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 30 September 2022.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2022: 9,785 thousand shares) with a value of USD 1.1358 per share (2022: USD 1.1358 per share) and with value of EUR 1.00 per share (2022: EUR 1.00 per share) and 115.99 thousand (2022: 115.99 shares) personal non voting shares with value of USD 1.1358 per share and with value of EUR 1.00 per share (2022: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	30.09.2023 USD'000	31.12.2022 USD'000	30.09.2023 EUR'000	31.12.2022 EUR'000
Non-current				
Bonds*	21,188	21,384	20,000	20,047
Borrowings from shareholders	49,876	40,984	47,079	38,425
Lease liabilities IFRS16	16,113	16,113	15,107	15,107
Finance lease liabilities	56	28	53	28
	87,233	78,509	82,239	73,607
Current				
Bank borrowings	66,542	72,757	62,938	68,057
Lease liabilities IFRS16	3,827	4,167	3,588	3,907
Finance lease liabilities	104	1,759	98	1,805
	70,473	78,683	66,624	73,769
Total borrowings	157,706	157,192	148,863	147,376

*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 46%. Minimal requirement is 16%. Covenant is fulfilled. ii) Consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) is 3.1 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 9 months ended 30 September 2023 is 12.2 % (the estimated tax rate for 9 months ended 30 September 2022 was 21.8%). 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-Sept 2023 USD'000	Jan-Sept 2022 USD'000	Jan-Sept 2023 EUR'000	Jan-Sept 2022 EUR'000
Profit attributable to equity holders of the Company	7,462	27,397	6,817	25,172
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)	0.75	2.77	0.69	2.54

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 2023, 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 Company's financial position as of 30 September 2023.