



Akciju Sabiedrība ELKO GRUPA

Unaudited Consolidated Financial Statements
For 3 months ended 31 March 2024

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Akciju Sabiedrība ELKO Grupa Management report on operational consolidated financial statements for 3 months period ended 31 March 2024

Company profile

Akciju Sabiedrība ELKO Grupa and its subsidiaries (hereinafter – the Company or ELKO), is one of the region's largest distributors and wholesalers of IT and consumer electronics products and solutions with more than 30 years of experience. ELKO represents 350 IT manufacturers and provides a wide range of products and distribution services to more than 10,000 retailers, local computer manufacturers, system integrators and enterprises within various sectors in 13 countries in Europe and Central Asia.

Top product groups by turnover: personal computing (notebooks and PCs); mobile communication (smartphones and tablets); components; home and office electronics and peripherals; small domestic appliances; solutions and value-added services; mobility, hobby and leisure products; software; power solutions.

Top 20 manufacturers by turnover: Apple, Roborock, Asus, Lenovo, DJI, Samsung, Hewlett-Packard (HP), Dell, MSI, Oppo, Western Digital, Seagate, Intel, Gigabyte, Microsoft, LG, Ubiquiti, Dreame, Acer and TP-Link.

Currently, ELKO employs more than 910 people and is headquartered in Riga, Latvia.

Financial analysis

Akciju Sabiedrība ELKO Grupa consolidated turnover during the 3 months of 2024 reached USD 251.2m (EUR 231.3m), which is a 23.5% decrease over the corresponding period in 2023, which is explained by the divesting of Ukrainian operations in February 2023, stoppage of sales to almost all non-EU customers in order to minimize risks associated with potential breach of international sanctions as well as overall slowdown of market. Gross profit reached USD 19.1m (EUR 17.6m), a decrease of 14.43% compared to the same period of the previous year. If one excludes revenue attributed to entities divested in 2023, then in three months of 2024, ELKO has shown a slight increase in revenue.

Following the Company's strategy to exit all Russia-related activities, account receivables from the divestment of the Russian division have been disposed to shareholders of ELKO as repayment of subordinated loans. As a result of this transaction, the Company did not breach any financial covenants imposed by financial institutions.

The year 2024 started without positive surprises – consumer demand remained subdued, while the industry anticipated a change in sentiment. Two major triggers should move the needle – AI adoption and Windows refresh. However, both of those effects are still in the very early stages, with consumers yet to make up their minds regarding practical AI scenarios, while businesses are gradually starting to invest and upgrade. ELKO's figures fall very much in line with the wider market sentiment. Smartphones are picking up slightly, and value-added businesses are growing through government and enterprise digitalization incentives, while classical PC / component businesses remain stable but are lower than preferred. Nevertheless, significant investment together with a few anchor vendors in the consumer electronics space allows us to look forward positively, expecting to capitalize on those investments as the market recovers in later quarters this year.

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 holds 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., 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.

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 the Company's financial position as of 31 March 2024.



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 March 31, 2024, and of its financial operations for the period ended 31 March 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-Mar 2024 USD'000	Jan-Mar 2023 USD'000	Jan-Mar 2024 EUR'000	Jan-Mar 2023 EUR'000
Revenue		251,223	328,247	231,342	306,160
Cost of sales		(232,080)	(305,877)	(213,714)	(285,295)
Gross profit		19,143	22,370	17,628	20,865
Distribution expenses		(1,866)	(1,680)	(1,719)	(1,567)
Administrative expenses		(14,200)	(13,462)	(13,076)	(12,557)
Other income		1,295	746	1,192	696
Other expenses		(124)	(948)	(115)	(793)
Operating profit		4,248	7,026	3,910	6,644
Finance income		419	145	386	135
Finance expenses		(2,021)	(1,958)	(1,861)	(1,826)
Finance income/ (expenses) – net		(1,602)	(1,813)	(1,475)	(1,691)
Profit before income tax		2,646	5,213	2,435	4,953
Income tax expense	4	(611)	(548)	(562)	(511)
Profit for the period		2,035	4,665	1,873	4,442
Attributable to:					
Equity holders of the Company		1,997	4,239	1,838	4,045
Non-controlling interest		38	426	35	397
		2,035	4,665	1,873	4,442
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	0.20	0.43	0.19	0.41
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(3,681)	9,678	(688)	6,171
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		(1,646)	14,343	1,185	10,613
Attributable to:					
Equity holders of the Company		(1,238)	13,358	1,148	10,040
Non-controlling interest		(408)	985	37	573
		(1,646)	14,343	1,185	10,613

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



Egons Mednis
 Chairman of the Board

Consolidated balance sheet

	Note	31.03.2024 USD'000	31.12.2023 USD'000	31.03.2024 EUR'000	31.12.2023 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		6,867	6,886	6,352	6,232
Intangible assets		1,680	1,847	1,554	1,672
Right-of-use assets		21,113	21,344	19,529	19,316
Goodwill on acquisition of subsidiary		2,017	2,117	1,866	1,916
Investments in associates		3,725	3,683	3,446	3,333
Long term loans		609	670	563	606
		36,011	36,547	33,310	33,075
Current assets					
Inventories		146,165	128,235	135,200	116,049
Current income tax receivable		1,877	1,359	1,736	1,230
Short term loans		989	98	915	89
Other current financial investments		3,136	3,146	2,901	2,847
Trade and other receivables		157,746	168,411	145,912	152,408
Derivative financial instruments		61	-	56	-
Cash deposits		-	-	235	-
Cash and cash equivalents		10,340	26,073	9,329	23,595
		320,314	327,322	296,284	296,218
Total assets		356,325	363,869	329,594	329,293
EQUITY					
Ordinary shares		11,251	11,251	9,901	9,901
Share premium		5,996	5,996	4,974	4,974
Translation reserve		(13,536)	(10,301)	6,288	6,978
Retained earnings		108,618	110,621	82,740	84,543
		112,329	117,567	103,903	106,396
Non-controlling interest in equity		20,105	20,678	18,597	18,713
Total equity	2	132,434	138,245	122,500	125,109
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		21,648	22,154	20,024	20,048
Interest-bearing loans from related		3,241	3,771	2,998	3,413
Lease liabilities		16,775	16,775	15,181	15,181
	3	41,664	42,700	38,203	38,642
Current liabilities					
Trade and other payables		112,281	115,797	103,857	104,794
Interest-bearing loans and borrowings	3	60,178	55,899	56,097	50,588
Interest-bearing loans from related	3	-	1,029	-	931
Lease liabilities	3	4,923	4,923	4,455	4,455
Income tax payable		1,072	1,135	992	1,027
Provisions		3,773	4,005	3,490	3,624
Derivative financial instruments		-	136	-	123
		182,227	182,924	168,891	165,542
Total liabilities		223,891	225,624	207,094	204,184
Total equity and liabilities		356,325	363,869	329,594	329,293

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 2023	11,251	5,996	120,113	(14,200)	123,160	18,504	141,664
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2023 (restated)	11,251	5,996	120,113	(14,200)	123,160	18,504	141,664
Other comprehensive income	-	-	-	3,899	3,899	1,184	5,083
Profit for the period	-	-	11,198	-	11,198	1,762	12,960
Total recognized income and expense for 2023	11,251	5,996	131,311	(10,301)	138,257	21,450	159,707
Dividend relating to prior years	-	-	(20,690)	-	(20,690)	(772)	(21,462)
Balance at 31 December 2023	11,251	5,996	110,621	(10,301)	117,567	20,678	138,245
Balance at 1 January 2024	11,251	5,996	110,621	(10,301)	117,567	20,678	138,245
Other comprehensive income	-	-	-	(3,235)	(3,235)	(446)	(3,681)
Profit for the period	-	-	1,997	-	1,997	38	2,035
Total recognized income and expense for 2024	-	-	1,997	(3,235)	(1,238)	(408)	(1,646)
Dividend relating to prior years	-	-	(4,000)	-	(4,000)	(165)	(4,165)
Balance at 31 December 2024	11,251	5,996	108,618	(13,536)	112,329	20,105	132,434

	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 2023	9,901	4,974	93,106	7,518	115,499	17,348	132,847
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2023 (restated)	9,901	4,974	93,106	7,518	115,499	17,348	132,847
Other comprehensive income	-	-	-	(540)	(540)	446	(94)
Profit for the period	-	-	10,285	-	10,285	1,629	11,914
Total recognized income and expense for 2023	-	-	10,285	(540)	9,745	2,075	11,820
Dividend relating to prior years	-	-	(18,848)	-	(18,848)	(710)	(19,558)
Balance at 31 December 2023	9,901	4,974	84,543	6,978	106,396	18,713	125,109
Balance at 1 January 2024	9,901	4,974	84,543	6,978	106,396	18,713	125,109
Other comprehensive income	-	-	-	(690)	(690)	2	(688)
Profit for the period	-	-	1,838	-	1,838	35	1,873
Total recognized income and expense for 2024	-	-	1,838	(690)	1,148	37	1,185
Dividend relating to prior years	-	-	(3,641)	-	(3,641)	(153)	(3,794)
Balance at 31 December 2024	9,901	4,974	82,740	6,288	103,903	18,597	122,500

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

Consolidated cash flows statement

	Jan-Mar 2024	Jan-Mar 2023	Jan-Mar 2024	Jan-Mar 2023
	USD'000	USD'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before tax	2,646	5,213	2,435	4,953
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	702	683	646	637
Loss on disposal of property, plant and equipment	(96)	-	(88)	-
Interest income	(419)	(145)	(386)	(135)
Interest expenses	2,021	1,958	1,861	1,826
Fair value (gain)/losses on derivative financial instruments, net	(75)	80	(67)	73
Movements in provisions and allowances	(204)	(593)	(108)	(612)
Share of net profit of associate and a joint venture	(122)	(191)	(112)	(180)
Loss/(Gain) on disposal of subsidiary	-	214	-	106
Gain on disposal of property, plant and equipment	-	(36)	-	(34)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	10,637	47,298	6,470	47,667
Decrease/(Increase) in inventories	(17,930)	(19,310)	(19,151)	(15,196)
(Decrease)/ Increase in trade and other payables	(8,778)	(31,748)	(3,808)	(34,218)
Interest received	419	145	386	135
Interest paid	(2,021)	(1,958)	(1,861)	(1,826)
Income tax paid	(1,287)	(810)	(1,185)	(755)
Increase in other current financial investments	(10)	-	(9)	-
Net cash flows used in operating activities	(14,517)	799	(14,977)	2,442
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	(96)	35	(89)	33
Purchases of property, plant and equipment and intangible assets	-	(309)	-	(288)
Net cash outflow on disposal of subsidiary	-	(26)	-	(25)
Acquisition of a subsidiary	-	(252)	-	(236)
Increase / (Decrease) from cash deposits	-	8	-	8
Net cash flows from / (used in) investing activities	(96)	(544)	(89)	(509)
Cash flows from financing activities				
Proceeds from bank overdrafts, net	3,045	(15,756)	4,828	(16,635)
Dividends paid to equity holders of the parent	(4,000)	-	(3,641)	-
Dividends paid to the Minority shareholders	(165)	-	(153)	-
Net cash flows (used in) / from financing activities	(1,120)	(15,756)	1,035	(16,635)
Net decrease in cash and cash equivalents	(15,733)	(15,501)	(14,031)	(14,702)
Cash and cash equivalents at beginning of the year	26,073	24,830	23,595	23,280
Exchange gains / (losses) on cash	-	-	-	-
Cash and cash equivalents at end of the period	10,340	9,329	9,564	8,578

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 3 months ended 31 March 2024 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 2023.

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

	31.03.2024	31.12.2023	31.03.2024	31.12.2023
	USD'000	USD'000	EUR'000	EUR'000
Non-current				
Bonds*	21,622	22,100	20,000	20,000
Borrowings from shareholders	3,241	3,771	2,998	3,413
Lease liabilities IFRS16	16,775	16,775	15,181	15,181
Finance lease liabilities	26	54	24	48
	41,664	42,700	38,203	38,642
Current				
Bank borrowings	60,153	54,073	56,074	48,936
Lease liabilities IFRS16	4,923	4,923	4,455	4,455
Finance lease liabilities	25	1,826	23	1,652
	65,101	61,851	60,552	55,974
Total borrowings	106,765	104,551	98,755	94,616

*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 41%. Minimal requirement is 16%. Covenant is fulfilled. ii) Consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) is 2.1 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 3 months ended 31 March 2024 is 23.1 % (the estimated tax rate for 3 months ended 31 March 2023 was 10.5%). 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 2024	Jan-Mar 2023	Jan-Mar 2024	Jan-Mar 2023
	USD'000	USD'000	EUR'000	EUR'000
Profit attributable to equity holders of the Company	1,997	4,239	1,838	4,045
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)	<u>0.20</u>	<u>0.43</u>	<u>0.19</u>	<u>0.41</u>

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 2024, 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 31 March 2024.