



ELKO GRUPA AS

**Unaudited Consolidated Financial Statements
For 3 months ended 31 March 2017**

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AS ELKO Grupa Management report on interim consolidated financial statements for the 3 month period ended 31 March 2017

Business activities

ELKO Grupa AS (hereinafter – the Company) is one of the largest distributors of IT products in the Baltic States, Central and Eastern Europe. The Company's core business activity is wholesale distribution of computer desktop components and peripherals, notebooks, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO Grupa AS subsidiaries and cooperation partners, representing a broad range of vendors of these products all over the world, including Lenovo, Apple, Intel, Acer, Asus, Seagate, Western Digital and others. 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, centralized purchase system, functionality of business process and financial management.

Financial analysis

ELKO Grupa AS turnover in the 3 months of 2017 has reached USD 248m (EUR 233m) that constitutes 1.5% decrease from the corresponding period in 2016. Gross profit reached USD 16.4m (EUR 15.4m) that is increase by 36% comparing to prior year. The increase in Gross Profit reflects focus of the Company to refuse from outsourcing of some business operations mainly in CIS region and optimization of operations.

Prospects

The Company's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Company has cooperation partners. The key factors driving the Company's growth was the increase in demand in the markets where the Company operates. The growth was mainly stimulated by the increased demand of mobile devices.

There are certain indicators that market condition in CIS region stabilizing and indicate trend towards slow growth. That allows the Company to remain optimistic regarding reaching the same trade volumes in 2017.

In the light of given market risks the management has assigned priority towards continuous working capital management.

Significant events during reporting period

In 2016 the Company has become the member of Global Technology Distribution Council. The Company has become official distributor of Lenovo notebooks in Russia.

ELKO Grupa AS structure

ELKO Grupa AS has shareholding in 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 and ELKO Kazakhstan LLP.

ELKO Grupa AS has majority shareholding in all of the subsidiaries.

Financial risk management

Multi-currency risk

ELKO Grupa AS operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, euro and Russian rubles. Foreign exchange risk arises from future multi-currency transactions and 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 main currency is US dollar, but in the Baltic trade is conducted in Euros. CEE countries Slovakia and Slovenia trades in Euros, but Romania in national currency – Romanian lei(s).

The Company has shareholding 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 – US dollar.

The sales of the Company are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars.

Interest rate risk

ELKO Grupa AS uses short-term borrowing for the partial financing of its current assets. All of the borrowings are at floating rate thus exposing the Company to interest rate risk.

Management report (cont'd)**Financial risk management (cont'd)*****Credit risk***

Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO Grupa has implemented procedures and control mechanisms to manage credit risk. 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 utilization of credit limits is regularly monitored.

Inventories

ELKO Grupa AS determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products. Furthermore, the procedure for placing the orders has helped to decrease the inventory days. Weekly inventory analysis minimizes 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 the compensation on preordered goods in the warehouse in case of price reduction or decline in the market prices.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In 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 balance sheet date

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 31 March 2017.



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, 2017 and of its financial operations for the period ended 31 March 2017. 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	31.03.2017 USD'000	31.12.2016 USD'000	31.03.2017 EUR'000	31.12.2016 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		2,215	2,065	2,063	1,959
Intangible assets		523	510	487	484
Long term loans		3,678	3,611	3,426	3,426
		6,416	6,186	5,976	5,869
Current assets					
Inventories		259,314	263,968	241,514	250,420
Current income tax receivable		3,417	2,307	3,183	2,188
Trade and other receivables		190,919	197,024	177,814	186,914
Derivative financial instruments		13	4	12	3
Cash deposits		1,000	1,000	931	949
Cash and cash equivalents		10,082	17,543	9,390	16,642
		464,745	481,846	432,844	457,116
Total assets		471,161	488,032	438,820	462,985
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		(11,034)	(12,699)	4,206	4,161
Retained earnings		83,354	81,827	64,326	62,892
		89,430	86,238	83,291	81,812
Non-controlling interest in equity		6,480	6,277	6,035	5,955
Total equity	3	95,910	92,515	89,326	87,767
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		8,609	8,452	8,018	8,018
	4	8,609	8,452	8,018	8,018
Current liabilities					
Trade and other payables		249,347	274,464	232,231	260,377
Interest-bearing loans and borrowings	4	115,292	110,947	107,379	105,253
Income tax payable		349	576	326	547
Derivative financial instruments		1,653	1,078	1,540	1,023
		366,642	387,065	341,476	367,200
Total liabilities		375,251	395,517	349,494	375,218
Total equity and liabilities		471,161	488,032	438,820	462,985

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.



Egons Mednis
Chairman of the Board

Consolidated income statement

	Note	Jan-March 2017 USD'000	Jan-March 2016 USD'000	Jan-March 2017 EUR'000	Jan-March 2016 EUR'000
Revenue	2	248,083	251,959	232,971	228,638
Cost of sales		(231,703)	(239,991)	(217,588)	(217,777)
Gross profit		16,380	11,968	15,383	10,861
Distribution expenses		(2,560)	(1,023)	(2,404)	(928)
Administrative expenses		(6,021)	(5,054)	(5,655)	(4,587)
Other income		42	73	39	67
Other expenses		(2,520)	(1,336)	(2,365)	(1,213)
Operating profit		5,321	4,628	4,998	4,200
Finance income		609	102	572	93
Finance expenses		(3,718)	(3,155)	(3,491)	(2,863)
Finance income/ (expenses) – net		(3,109)	(3,053)	(2,919)	(2,770)
Profit before income tax		2,212	1,575	2,079	1,430
Income tax expense	5	(634)	(545)	(595)	(495)
Profit for the period		1,578	1,030	1,484	935
Attributable to:					
Equity holders of the Company		1,527	1,904	1,434	1,728
Non-controlling interest		53	(874)	50	(793)
		1,580	1,030	1,484	935
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)	6	0.16	0.19	0.15	0.18
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		1,815	3,418	75	(914)
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		3,395	4,448	1,559	21
Attributable to:					
Equity holders of the Company		3,192	5,050	1,479	1,045
Non-controlling interest		203	(602)	80	(1,024)
		3,395	4,448	1,559	21

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.



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 2016	11,114	5,996	79,114	(11,884)	84,340	13,499	97,839
Currency translation differences	-	-	-	(815)	(815)	(176)	(991)
Profit for the period	-	-	8,813	-	8,813	(283)	8,530
Total recognized income and expense for 2016	-	-	8,813	(815)	7,998	(459)	7,539
Dividend relating to prior years	-	-	(6,100)	-	(6,100)	(6,763)	(12,863)
Balance at 31 December 2016	11,114	5,996	81,827	(12,699)	86,238	6,277	92,515
Balance at 1 January 2017	11,114	5,996	81,827	(12,699)	86,238	6,277	92,515
Currency translation differences	-	-	-	1,665	1,665	150	1,815
Profit for the period	-	-	1,527	-	1,527	53	1,580
Total recognized income and expense for 2017	-	-	1,527	1,665	3,192	203	3,395
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2017	11,114	5,996	83,354	(11,034)	89,430	6,480	95,910

	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 2016	9,785	4,974	60,429	2,281	77,469	12,399	89,868
Currency translation differences	-	-	-	1,880	1,880	(107)	1,773
Profit for the period	-	-	7,963	-	7,963	(255)	7,708
Total recognized income and expense for 2016	-	-	7,963	1,880	9,843	(362)	9,481
Dividend relating to prior years	-	-	(5,500)	-	(5,500)	(6,082)	(11,582)
Balance at 31 December 2016	9,785	4,974	62,892	4,161	81,812	5,955	87,767
Balance at 1 January 2017	9,785	4,974	62,892	4,161	81,812	5,955	87,767
Currency translation differences	-	-	-	45	45	30	75
Profit for the period	-	-	1,434	-	1,434	50	1,484
Total recognized income and expense for 2017	-	-	1,434	45	1,479	80	1,559
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2017	9,785	4,974	64,326	4,206	83,291	6,035	89,326

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.

Consolidated cash flows statement

	Jan-March 2017 USD'000	Jan-March 2016 USD'000	Jan-March 2017 EUR'000	Jan-March 2016 EUR'000
Cash flows from operating activities				
Profit before tax	2,212	1,575	2,079	1,430
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	218	207	204	188
Loss on disposal of property, plant and equipment				
Interest income	(609)	(102)	(572)	(93)
Interest expenses	3,718	3,155	3,491	2,863
Fair value (gain)/losses on derivative financial instruments, net	566	3,442	508	3,131
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	4,995	(16,762)	8,105	(9,469)
Decrease/(Increase) in inventories	4,654	11,188	8,906	18,753
(Decrease) in trade and other payables	(23,593)	9,124	(28,274)	(4,328)
Interest received	609	102	572	93
Income tax paid	(634)	(545)	(595)	(495)
Net cash flows used in operating activities	(7,864)	11,384	(5,576)	12,073
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets	(381)	(362)	(311)	(248)
Loans repaid/(issued)	-	(150)	-	18
Net cash flows from / (used in) investing activities	(381)	(512)	(311)	(230)
Cash flows from financing activities				
Proceeds from bank overdrafts, net	4,502	(28,086)	2,126	(28,109)
Dividends paid to the Minority shareholders	-	(2,970)	-	(2,655)
Interest paid	(3,718)	(3,155)	(3,491)	(2,863)
Net cash flows (used in) / from financing activities	784	(34,211)	(1,365)	(33,627)
Net decrease in cash and cash equivalents	(7,461)	(23,339)	(7,252)	(21,784)
Cash and cash equivalents at beginning of the year	17,543	31,958	16,642	29,354
Cash and cash equivalents at end of the period	10,082	8,619	9,390	7,570

The notes on pages 10 to 12 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 2017 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 2016.

2. Segment information

Geographical segments by location of customers

The Group considers geography as its only reporting segment. The range of products sold by the Group, classes of its customers and distribution channels do not represent separate business segments as they are not subject to different risks and returns. Accordingly, the Group has only one business segment.

At 31 March 2017, it is organized into three main geographical segments by location of customers:

- (1) The Baltic area relates to Latvia, Lithuania and Estonia
- (2) Central and Eastern Europe area relates to Slovakia, Slovenia, Romania, Czech Republic and other countries
- (3) The area of CIS relate to Russia, Ukraine and Kazakhstan.

The purchasing of inventory from vendors as well as financing is managed by the Company globally. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed on a global basis at corporate level. This activity is further referred to as central operation.

Therefore, the Group measures geographical segment performance, including corporate performance, based on the segment's operating result. Unallocated remain operating expenses of the central operation.

The segment results for 3 months ended 31 March 2017 are as follows for USD:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	25,160	103,813	119,110	-	248,083
Inter-segment revenue	70,708	306	16,287	(87,301)	-
Revenue	95,868	104,119	135,397	(87,301)	248,083

The segment results for 3 months ended 31 March 2016 are as follows for USD:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	25,885	100,428	125,646	-	251,959
Inter-segment revenue	48,147	118	27,846	(76,111)	-
Revenue	74,032	100,546	153,492	(76,111)	251,959

The segment results for 3 months ended 31 March 2017 are as follows for EUR :

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	23,627	97,489	111,855	-	232,971
Inter-segment revenue	66,401	287	15,295	(81,983)	-
Revenue	90,028	97,776	127,150	(81,983)	232,971

The segment results for 3 months ended 31 March 2016 are as follows for EUR :

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	23,489	91,132	114,016	-	228,638
Inter-segment revenue	43,691	107	25,269	(69,066)	-
Revenue	67,180	91,240	139,285	(69,066)	228,638

Notes to the consolidated financial statements

2. Segment information (continued)

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables, cash and cash equivalents. Unallocated assets comprise principally the central operations' equipment, inventory and other receivables from non-related parties.

The segment assets as at 31 March 2017 are as follows:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets	223,446	143,747	310,489	(206,520)	471,161

The segment assets as at 31 March 2016 are as follows:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets	162,578	89,530	261,105	(151,842)	361,371

The segment assets as at 31 March 2017 are as follows:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets	208,108	133,880	289,177	(192,345)	438,820

The segment assets as at 31 March 2016 are as follows:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets	142,800	79,689	228,291	(138,598)	312,182

Notes to the consolidated financial statements (continued)

3. Share capital

The total authorised and issued number of ordinary shares is 9,758 thousand shares (2016: 9,758 thousand shares) with a value of USD 1.1358 per share (2016: USD 1.1358 per share) and with value of EUR 1.00 per share (2016: EUR 1.00 per share) . All issued shares are fully paid. There are no share options in any of the years presented.

4. Borrowings

	31.03.2017 USD'000	31.12.2016 USD'000	31.03.2017 EUR'000	31.12.2016 EUR'000
Non-current				
Bonds	8,590	8,433	8,000	8,000
Finance lease liabilities	19	19	18	18
	8,609	8,452	8,018	8,018
Current				
Bank borrowings	115,269	110,870	107,358	105,204
Other borrowings	-	-	-	-
Finance lease liabilities	23	77	21	49
	115,292	110,947	107,379	105,253
Total borrowings	123,901	119,399	115,397	113,271

As at March 31, 2017 the undrawn credit facilities amount to **USD 14 M.**

5. 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 2017 is 28.6% (the estimated tax rate for 3 months ended 31 March 2016 was 34.6%). 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.

6. Earnings per share

The Company has no dilutive potential shares therefore diluted earnings per share are equal to basic earnings 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-March 2017 USD'000	Jan-March 2016 USD'000	Jan-March 2017 EUR'000	Jan-March 2016 EUR'000
Profit attributable to equity holders of the Company	1,527	1,904	1,434	1,728
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.16	0.19	0.15	0.18

7. Related party transactions

The Company has entered into an agreement with related party AST BALTS SIA for rent of warehousing and office space. ELKO Grupa AS issued a loan to AST BALTS SIA in amount of 3,426 million EUR on 26 November 2015. The interest rate is 5% and maturity date is 31 August 2020.

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 year-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 2017, 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.

8. Issued guarantees and pledges

All assets on which the Company holds title have been pledged as security in favour of the banks.

9. Subsequent events

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 31 March 2017.