ELKO GRUPA AS

Unaudited Consolidated Financial Statements
For 6 months ended 30 June 2017

Structure

AS ELKO Grupa Management report on interim consolidated financial statements for the 6 month period ended 30 June 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 6 months of 2017 has reached USD 635m (EUR 586m) that constitutes 17% increase from the corresponding period in 2016. Gross profit reached USD 32.4m (EUR 29.9m) that is increase by 31% 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 product portfolio significant expansion, and adding of new distribution areas to already existing distribution agreements during the last half-year. Thus, ELKO managed to grow faster than the market as a whole, with a turnover growth of 17% compared to the six months of the previous year.
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

During the first half of 2017, ELKO went through a rebranding process by developing new positioning and visual identity of its brand. The new logo and the story behind it are the first visible evidence of how ELKO is integrated into the transformation of the industry, improving efficiency and ensuring sustainable development.

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
During July 2017 the Company prolonged the current syndicate creditline. In July the deal for acquisition of 85% shareholding in Swedish company Gandalf Distribution AB - one of the leading distributiors of computerand perepheral products in Sweden, has been completed. Gandalf Distribution AB is to be consolidated into ELKO Group starting from 3 quarter of 2017. In July ELKO Group extended its business presence to Poland by outsourcing a local sales team for distribution of IT and Consumer products. There are no other 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 30 June 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 June 30, 2017 and of its financial operations for the period ended 30 June 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	30.06.2017	31.12.2016	30.06.2017	31.12.2016
ASSETS		**USD'000**	**USD'000**	**EUR'000**	**EUR'000**
Non-current assets					
Property, plant and equipment		2,928	2,065	2,566	1,959
Intangible assets		550	510	482	484
Long term loans		3,910	3,611	3,426	3,426
		7,388	**6,186**	**6,474**	**5,869**
Current assets					
Inventories		235,114	263,968	206,023	250,420
Current income tax receivable		3,561	2,307	3,121	2,188
Trade and other receivables		180,700	197,024	158,313	186,914
Derivative financial instruments		5	4	4	3
Cash deposits		1,000	1,000	876	949
Cash and cash equivalents		21,377	17,543	18,732	16,642
		441,757	**481,846**	**387,069**	**457,116**
Total assets		**449,145**	**488,032**	**393,543**	**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		(7,330)	(12,699)	2,375	4,161
Retained earnings		86,371	81,827	67,090	62,892
		96,151	**86,238**	**84,224**	**81,812**
Non-controlling interest in equity		**7,028**	**6,277**	**6,159**	**5,955**
Total equity	3	**103,179**	**92,515**	**90,383**	**87,767**
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		9,150	8,452	8,018	8,018
	4	**9,150**	**8,452**	**8,018**	**8,018**
Current liabilities					
Trade and other payables		236,323	274,464	207,083	260,377
Interest-bearing loans and borrowings	4	99,457	110,947	87,151	105,253
Income tax payable		930	576	815	547
Derivative financial instruments		106	1,078	93	1,023
		336,816	**387,065**	**295,142**	**367,200**
Total liabilities		**345,966**	**395,517**	**303,160**	**375,218**
Total equity and liabilities		**449,145**	**488,032**	**393,543**	**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-June 2017 USD'000	Jan-June 2016 USD'000	Jan-June 2017 EUR'000	Jan-June 2016 EUR'000
Revenue	2	634,747	541,515	586,068	485,256
Cost of sales		(602,371)	(516,111)	(556,175)	(462,491)
Gross profit		**32,376**	**25,404**	**29,893**	**22,765**
Distribution expenses		(4,965)	(2,424)	(4,585)	(2,172)
Administrative expenses		(12,277)	(10,771)	(11,335)	(9,651)
Other income		88	210	85	187
Other expenses		(2,013)	(2,388)	(1,860)	(2,140)
Operating profit		**13,209**	**10,031**	**12,198**	**8,989**
Finance income		814	203	752	182
Finance expenses		(7,245)	(5,101)	(6,689)	(4,571)
Finance income/ (expenses) – net		**(6,431)**	**(4,898)**	**(5,937)**	**(4,389)**
Profit before income tax		**6,778**	**5,133**	**6,261**	**4,600**
Income tax expense	5	(1,553)	(809)	(1,434)	(725)
Profit for the period		**5,225**	**4,324**	**4,827**	**3,875**
Attributable to:					
Equity holders of the Company		4,544	2,966	4,198	2,657
Non-controlling interest		681	1,358	629	1,217
		5,225	**4,324**	**4,827**	**3,874**
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	**0.46**	**0.30**	**0.43**	**0.27**
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		4,799	2,086	(2,799)	144
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		**10,024**	**6,410**	**2,028**	**4,018**
Attributable to:					
Equity holders of the Company		9,913	2,966	2,412	2,657
Non-controlling interest		111	1,358	(384)	1,217
		10,024	**4,324**	**2,028**	**3,874**

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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 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	-	-	-	5,369	5,369	(570)	4,799
Profit for the period	-	-	4,544	-	4,544	681	5,225
Total recognized income and expense for 2017	**-**	**-**	**4,544**	**5,369**	**9,913**	**111**	**10,024**
Dividend relating to prior years	-	-	-	-	-	640	640
Balance at 30 June 2017	**11,114**	**5,996**	**86,371**	**(7,330)**	**96,151**	**7,028**	**103,179**

	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	-	-	-	(1,786)	(1,786)	(1,013)	(2,799)
Profit for the period	-	-	4,198	-	4,198	629	4,827
Total recognized income and expense for 2017	**-**		**4,198**	**(1,786)**	**2,412**	**(384)**	**2,028**
Dividend relating to prior years	-	-	-		-	588	588
Balance at 30 June 2017	**9,785**	**4,974**	**67,090**	**2,375**	**84,224**	**6,159**	**90,383**

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

Consolidated cash flows statement

	Jan-June 2017	Jan-June 2016	Jan-June 2017	Jan-June 2016
Cash flows from operating activities	**USD'000**	**USD'000**	**EUR'000**	**EUR'000**
Profit before tax	6,778	5,133	6,261	4,600
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	499	363	461	325
Loss on disposal of property, plant and equipment				
Interest income	(814)	(203)	(752)	(182)
Interest expenses	7,245	5,101	6,689	4,571
Fair value (gain)/losses on derivative financial instruments, net	(973)	2,927	(931)	2,684
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	15,070	30,294	27,668	29,409
Decrease/(Increase) in inventories	28,854	(21,628)	44,397	(15,530)
(Decrease) in trade and other payables	(33,287)	2,688	(55,752)	(2,778)
Interest received	814	203	752	182
Income tax paid	(1,553)	(809)	(1,434)	(725)
Net cash flows used in operating activities	**22,633**	**24,070**	**27,359**	**22,556**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets	(1,402)	53	(1,066)	47
Proceeds from cash deposits	-	(1,030)	0	(892)
Loans repaid/(issued)	-	(660)	-	(594)
Net cash flows from / (used in) investing activities	**(1,402)**	**(1,637)**	**(1,066)**	**(1,440)**
Cash flows from financing activities				
Proceeds from bank overdrafts, net	(10,792)	(18,714)	(18,102)	(18,379)
Dividends paid to equity holders of the parent	-	(3,664)	-	(3,300)
Dividends paid to the Minority shareholders	640	(2,970)	588	(2,655)
Interest paid	(7,245)	(5,101)	(6,689)	(4,571)
Net cash flows (used in) / from financing activities	**(17,396)**	**(30,448)**	**(24,203)**	**(28,905)**
Net decrease in cash and cash equivalents	**3,834**	**(8,016)**	**2,090**	**(7,789)**
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	**21,377**	**23,942**	**18,732**	**21,565**

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 6 months ended 30 June 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 30 June 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 6 months ended 30 June 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	48,085	273,535	313,127	-	634,747
Inter-segment revenue	149,004	451	32,486	(181,941)	-
Revenue	**197,089**	**273,986**	**345,613**	**(181,941)**	**634,747**

The segment results for 6 months ended 30 June 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	49,126	254,878	237,511	-	541,515
Inter-segment revenue	112,674	118	45,398	(158,190)	-
Revenue	**161,800**	**254,996**	**282,909**	**(158,190)**	**541,515**

The segment results for 6 months ended 30 June 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	44,397	252,558	289,113	-	586,068
Inter-segment revenue	137,577	416	29,995	(167,988)	-
Revenue	**181,974**	**252,974**	**319,107**	**(167,988)**	**586,068**

The segment results for 6 months ended 30 June 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	44,022	228,398	212,835	-	485,256
Inter-segment revenue	100,968	106	40,681	(141,755)	-
Revenue	**144,990**	**228,504**	**253,517**	**(141,755)**	**485,256**

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 30 June 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	211,523	115,421	322,475	(200,274)	449,145

The segment assets as at 30 June 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	174,947	107,574	237,374	(156,304)	363,591

The segment assets as at 30 June 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	197,004	107,498	300,340	(211,299)	393,543

The segment assets as at 30 June 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	(123,279)	327,501

Notes to the consolidated financial statements (continued)

3. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2016: 9,785 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

	30.06.2017 USD'000	31.12.2016 USD'000	30.06.2017 EUR'000	31.12.2016 EUR'000
Non-current				
Bonds	9,130	8,433	8,000	8,000
Finance lease liabilities	21	19	18	18
	9,150	**8,452**	**8,018**	**8,018**
Current				
Bank borrowings	99,444	110,870	87,140	105,204
Other borrowings	-	-	-	-
Finance lease liabilities	13	77	11	49
	99,457	**110,947**	**87,151**	**105,253**
Total borrowings	**108,607**	**119,399**	**95,169**	**113,271**

As at June 30, 2017 the undrawn credit facilities amount to **USD 30 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 6 months ended 30 June 2017 is 22.9% (the estimated tax rate for 6 months ended 30 June 2016 was 15.7%). 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 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-June 2017 USD'000	Jan-June 2016 USD'000	Jan-June 2017 EUR'000	Jan-June 2016 EUR'000
Profit attributable to equity holders of the Company	4,544	2,966	4,198	2,657
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.46	0.30	0.43	0.27

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 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 June 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

During July 2017 the Company prolonged the current syndicate creditline. In July the deal for acquisition of 85% shareholding in Swedish company Gandalf Distribution AB - one of the leading distributors of computer and periepheral products in Sweden, has been completed. Gandalf Distribution AB will be consolidated into ELKO Group starting from 3 quarter of 2017. In July ELKO Group extended its business presence to Poland by outsourcing a local sales team for distribution of IT and Consumer products. There are no other 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 30 June 2017.