



Akciju Sabiedrība ELKO GRUPA

Unaudited Consolidated Financial Statements
For 9 months ended 30 September 2022

Structure

	Page
Management report	3
Statement of Directors' responsibility	5
Consolidated balance sheet	6
Consolidated income statement	7
Consolidated statement of changes in equity	8
Consolidated cash flow statement	9
Notes to the consolidated financial statements	10

Akciju Sabiedrība ELKO Grupa Management report on operational consolidated financial statements for 9 months period ended 30 September 2022

Business activities

Akciju Sabiedrība ELKO Grupa (hereinafter – the Company) is one of the region's largest distributors of IT and consumer electronics products and solutions.

The ELKO Group represents about 350 IT and consumer electronic 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 29 countries in Europe and Central Asia. Currently, ELKO Group employs more than 1 100 people and is headquartered in Riga, Latvia.

The key to the success of Akciju Sabiedrība ELKO Grupa, 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

Akciju Sabiedrība ELKO Grupa consolidated turnover during the 9 months of 2022 reached USD 1,113m (EUR 1,037m), which is a 25.18% decrease over the corresponding period in 2021 which is explained by divesting of Russian operations in April 2022. Gross profit reached USD 108.6m (EUR 101.3m), an increase of 11.62% compared to the same period of the previous year. Since the beginning of the war in Ukraine in late February, ELKO Group has stopped supplying goods to the Russian market following international sanctions. At the same time, demand remained very strong, and profitability increased considerably. To mitigate risks related to operations in Russia, at the end of April, ELKO Group divested its operations in the region; thus, the results of operations in the Russian market were consolidated into ELKO Group only for the first four months of 2022.

Regarding the Ukrainian market, there were no sales during March. However, in April, sales in Ukraine were recovering, and now there is a positive tendency in customer cash collection. Nevertheless, ELKO takes all necessary measures not to expose itself to risks, keeping sales in Ukraine at a comparably low level. Operations in other geographies are affected to a small extent, and demand and profitability are at a healthy level.

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 the addition of new distribution areas to existing distribution agreements during the year.

In light of mentioned risks in Ukraine, the main mid-term focus in the market will be to minimize potential risks of losses by decreasing exposure in the market.

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, ELKO Rus LTD (until 18.04.2022), Gandalf Distribution AB, ELKO Trading Malta LTD, TD Absolut LTD (until 18.04.2022), 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., IT Smart Distribution SRL and ЭЛКО Ритейл ООО (until 18.04.2022), ELKO Trading Kazakhstan LLP, ELKO Nordic 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.

Financial risk management

Multi-currency risk

The Company operates internationally and is exposed to foreign exchange risks, 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 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.

Management report (cont'd)**Financial risk management (cont'd)*****Interest-rate risk***

The Company utilizes 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 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

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 centralized plans for the purchase and sale of products. Furthermore, upgrading the procedure for placing orders has helped decrease 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 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 30 September 2022.



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 true and fair view in all material aspects of the financial position of the ELKO Group as of September 30, 2022 and of its financial operations for the period ended 30 September 2022. 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 the true and fair view of the financial position of the ELKO 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	30.09.2022 USD'000	31.12.2021 USD'000	30.09.2022 EUR'000	31.12.2021 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		5,307	6,545	5,445	5,779
Intangible assets		1,834	1,518	1,881	1,341
Right-of-use assets		20,206	22,166	20,728	19,571
Goodwill on acquisition of subsidiary		1,333	2,202	1,368	1,944
Investments in associates		2,836	-	2,910	-
Long term loans		791	562	812	496
		32,307	32,993	33,144	29,131
Current assets					
Inventories		144,390	319,490	148,122	282,086
Current income tax receivable		1,684	970	1,728	856
Trade and other receivables		217,228	373,551	222,769	329,817
Derivative financial instruments		47	-	49	-
Cash deposits		2,894	956	2,982	844
Cash and cash equivalents		28,620	40,053	29,347	35,364
		394,863	735,020	404,997	648,967
Total assets		427,170	768,013	438,141	678,098
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		(21,018)	(9,966)	10,736	1,884
Retained earnings		141,234	116,715	115,334	92,721
		137,463	123,996	140,945	109,480
Non-controlling interest in equity		14,328	18,002	14,699	15,894
Total equity	2	151,791	141,998	155,644	125,374
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		19,623	22,919	20,130	20,236
Interest-bearing loans from related		16,606	19,619	17,109	17,322
Lease liabilities		18,704	18,704	16,515	16,515
	3	54,933	61,242	53,754	54,073
Current liabilities					
Trade and other payables		146,121	327,856	149,897	289,472
Interest-bearing loans and borrowings	3	60,163	222,003	64,918	196,011
Interest-bearing loans from related	3	-	331	-	292
Lease liabilities	3	4,205	4,271	3,713	3,771
Income tax payable		7,429	7,087	7,621	6,257
Provisions		2,513	3,211	2,578	2,835
Derivative financial instruments		15	14	16	13
		220,446	564,773	228,743	498,651
Total liabilities		275,379	626,015	282,497	552,724
Total equity and liabilities		427,170	768,013	438,141	678,098

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-Sept 2022 USD'000	Jan-Sep 2021 USD'000	Jan-Sept 2022 EUR'000	Jan-Sep 2021 EUR'000
Revenue		1,112,552	1,486,896	1,036,974	1,243,017
Cost of sales		(1,003,919)	(1,389,573)	(935,697)	(1,161,656)
Gross profit		108,633	97,323	101,277	81,361
Distribution expenses		(6,697)	(10,649)	(6,228)	(8,903)
Administrative expenses		(42,694)	(43,507)	(40,008)	(36,371)
Other income		2,424	3,989	2,005	3,334
Other expenses		(15,761)	(6,599)	(14,706)	(5,517)
Operating profit		45,905	40,557	42,340	33,904
Finance income		667	270	617	226
Finance expenses		(9,588)	(10,202)	(8,902)	(8,529)
Finance income/ (expenses) – net		(8,921)	(9,932)	(8,285)	(8,303)
Profit before income tax		36,984	30,625	34,055	25,601
Income tax expense	4	(8,059)	(5,099)	(7,448)	(4,262)
Profit for the period		28,925	25,526	26,607	21,339
Attributable to:					
Equity holders of the Company		27,397	23,488	25,172	19,635
Non-controlling interest		1,528	2,038	1,435	1,704
		28,925	25,526	26,607	21,339
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	2.77	2.37	2.57	2.01
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		(13,901)	(2,190)	8,300	4,112
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		15,024	23,336	34,907	25,451
Attributable to:					
Equity holders of the Company		13,895	22,088	31,861	23,603
Non-controlling interest		(3,674)	1,248	(1,195)	1,848
		10,221	23,336	30,666	25,451

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 2021	11,251	5,996	91,886	(6,516)	102,617	16,475	119,092
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2021 (restated)	11,251	5,996	91,886	(6,516)	102,617	16,475	119,092
Other comprehensive income	-	-	-	(3,450)	(3,450)	(1,294)	(4,744)
Employee shares	-	-	-	-	-	-	-
Profit for the period	-	-	40,141	-	40,141	4,277	44,418
Total recognized income and expense for 2021	11,251	5,996	132,027	(9,966)	139,308	19,458	158,766
Dividend relating to prior years	-	-	(15,312)	-	(15,312)	(1,456)	(16,768)
Balance at 31 December 2021	11,251	5,996	116,715	(9,966)	123,996	18,002	141,998
Balance at 1 January 2022	11,251	5,996	116,715	(9,966)	123,996	18,002	141,998
Other comprehensive income	-	-	-	(11,052)	(11,052)	(2,849)	(13,901)
Employee shares	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	(2,450)	-	(2,450)	(2,353)	(4,803)
Profit for the period	-	-	27,397	-	27,397	1,528	28,925
Total recognized income and expense for 2022	-	-	24,947	(11,052)	13,895	(3,674)	10,221
Dividend relating to prior years	-	-	(428)	-	(428)	-	(428)
Balance at 30 September 2022	11,251	5,996	141,234	(21,018)	137,463	14,328	151,791

	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 2021	9,901	4,974	71,542	(2,792)	83,625	13,426	97,051
Effect of adoption of new accounting standards	-	-	-	-	-	-	-
Balance at 1 January 2021 (restated)	9,901	4,974	71,542	(2,792)	83,625	13,426	97,051
Other comprehensive income	-	-	-	4,676	4,676	78	4,754
Employee shares	-	-	-	-	-	-	-
Profit for the period	-	-	33,932	-	33,932	3,615	37,547
Total recognized income and expense for 2021	-	-	33,932	4,676	38,608	3,693	42,301
Dividend relating to prior years	-	-	(12,753)	-	(12,753)	(1,225)	(13,978)
Balance at 31 December 2021	9,901	4,974	92,721	1,884	109,480	15,894	125,374
Balance at 1 January 2022	9,901	4,974	92,721	1,884	109,480	15,894	125,374
Other comprehensive income	-	-	-	8,852	8,852	(552)	8,300
Employee shares	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	(2,163)	-	(2,163)	(2,078)	(4,241)
Profit for the period	-	-	25,172	-	25,172	1,435	26,607
Total recognized income and expense for 2022	-	-	23,009	8,852	31,861	(1,195)	30,666
Dividend relating to prior years	-	-	(396)	-	(396)	-	(396)
Balance at 30 September 2022	9,901	4,974	115,334	10,736	140,945	14,699	155,644

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

Consolidated cash flows statement

	Jan-Sept 2022	Jan-Sept 2021	Jan-Sept 2022	Jan-Sept 2021
	USD'000	USD'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before tax	36,984	30,625	34,055	25,601
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	2,172	2,179	2,039	1,822
Loss on disposal of property, plant and equipment				
Interest income	(667)	(270)	(617)	(226)
Interest expenses	9,588	10,202	8,902	8,529
Fair value (gain)/losses on derivative financial instruments, net	48	16	52	-
Movements in provisions and allowances	(698)	(40)	(257)	(314)
Share of net profit of associate and a joint venture	(2,353)	-	(2,078)	-
Loss on disposal of subsidiary	2,893	-	3,623	-
Gain on disposal of property, plant and equipment	(48)	(27)	(45)	(23)
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	101,416	(54,030)	53,427	(2,723)
Decrease/(Increase) in inventories	40,433	(124,242)	6,403	(81,686)
(Decrease)/ Increase in trade and other payables	(108,137)	41,664	(52,048)	(9,915)
Interest received	667	270	617	226
Interest paid	(9,588)	(10,202)	(8,902)	(8,529)
Income tax paid	(6,262)	(9,580)	(5,677)	(7,968)
Net cash flows used in operating activities	66,448	(113,435)	39,494	(75,206)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	49	-	46	-
Purchases of property, plant and equipment and intangible assets	(2,160)	(1,039)	(2,029)	(869)
Sale of / (Acquisition) of a subsidiary	85	(2,476)	75	(2,099)
Increase / (Decrease) from cash deposits	1,938	(3,468)	1,988	(2,918)
Net cash flows from / (used in) investing activities	(89)	(6,983)	81	(5,886)
Cash flows from financing activities				
Bonds received	-	23,162	-	20,000
Proceeds from bank overdrafts, net	(66,846)	72,492	(35,160)	41,681
Cash increase (decrease) due to disposal of subsidiary	(10,471)	-	(10,037)	-
Payment of principal portion of lease liabilities	-	-	-	-
Non-controlling interest in established subsidiary				
Acquisition of non-controlling interests				
Dividends paid to equity holders of the parent	(475)	-	(396)	-
Dividends paid to the Minority shareholders	-	(1,456)	-	(1,225)
Net cash flows (used in) / from financing activities	(77,792)	94,198	(45,593)	60,456
Net decrease in cash and cash equivalents	(11,433)	(26,220)	(6,017)	(20,636)
Cash and cash equivalents at beginning of the year	40,053	41,101	35,364	33,494
Exchange gains / (losses) on cash	-	-	-	-
Cash and cash equivalents at end of the period	28,620	14,881	29,347	12,858

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 9 months ended 30 September 2022 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 2021.

2. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2021: 9,785 thousand shares) with a value of USD 1.1358 per share (2021: USD 1.1358 per share) and with value of EUR 1.00 per share (2021: EUR 1.00 per share) and 115.99 thousand (2021: 115.99 shares) personal non voting shares with value of USD 1.1358 per share and with value of EUR 1.00 per share (2021: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

3. Borrowings

	30.09.2022	31.12.2021	30.09.2022	31.12.2021
	USD'000	USD'000	EUR'000	EUR'000
Non-current				
Bonds*	19,496	22,652	20,000	20,000
Borrowings from shareholders	16,606	19,619	17,109	17,322
Lease liabilities IFRS16	18,704	18,704	16,515	16,515
Finance lease liabilities	127	267	130	236
	54,933	61,242	53,754	54,073
Current				
Bank borrowings	60,007	221,746	64,758	195,784
Borrowings from shareholders	-	331	-	292
Lease liabilities IFRS16	4,205	4,271	3,713	3,771
Finance lease liabilities	156	257	160	227
	64,368	226,605	68,631	200,074
Total borrowings	119,301	287,847	122,385	254,147

*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 42%. Minimal requirement is 16%. Covenant is fulfilled. ii) Consolidated Interest Coverage Ratio (Earnings before interest payments and taxes (EBIT) to Interest expenses) is 5.5 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 2022 is 21.8 % (the estimated tax rate for 9 months ended 30 September 2021 was 16.6%). 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.

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 2022	Jan-Sep 2021	Jan-Sept 2022	Jan-Sep 2021
	USD'000	USD'000	EUR'000	EUR'000
Profit attributable to equity holders of the Company	27,397	23,488	25,172	19,635
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)	2.77	2.37	2.54	1.98

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 2022, 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 the financial position of the Company as at 30 September 2022.