



ELKO GRUPA AS

**Unaudited Consolidated Financial Statements
For 3 months ended 31 March 2018**

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AS ELKO Grupa Management report on interim consolidated financial statements for 3 months ended 31 March 2018

Business activities

ELKO Grupa AS (hereinafter – the Company) is one of the region's largest distributors of IT products and solutions. The ELKO Group represents 210 IT manufacturers, and provides a wide range of products and services to more than 7 700 retailers, local computer manufacturers, system integrators and enterprises within various sectors in 30 countries in Europe and Central Asia. Currently, ELKO employs more than 700 people and is headquartered in Riga, Latvia. 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, a centralized purchase system, and the functionality of business-process and financial management.

Financial analysis

ELKO Grupa AS consolidated turnover in the three months of 2018 reached USD 325m (EUR 265m) which is a 31% increase over the corresponding period in 2017. This is explained by organic growth and by consolidating the results of Gandalf Distribution AB into the ELKO Group, starting from July 2017. Gross profit reached USD 18.5m (EUR 15m), an increase of 13% compared to the previous year. The increase in Gross Profit reflects the Company's focus on withdrawing from the outsourcing of some business operations, mainly in the CIS region, and on optimizing operations.

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 significant expansion of the product portfolio, and the addition of new distribution areas to existing distribution agreements during the year. Consequently, ELKO managed to grow faster than the market as a whole. The stabilization of CIS market conditions and the trend towards slow growth, recent expansions, as well as Company's management strategic and operational efforts allow the Company to estimate that it will continue to grow in coming year. In the light of given market risks, management has assigned priority to the continuous management of working capital.

Significant events during the reporting period

During the first half of 2017, ELKO went through a rebranding process by developing new positioning and a 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. During July 2017, the Company prolonged its current syndicate credit line. In July, the deal for acquisition of an 85% shareholding in Swedish company Gandalf Distribution AB – one of the leading distributors of computer and peripheral products in Sweden was completed. In July, the Company also extended its business presence to Poland by outsourcing a local sales team for the distribution of IT and consumer products.

ELKO Grupa AS structure

ELKO Grupa AS has shareholdings in the 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, ELKO Rus LTD, ELKO Kazakhstan LLP, AST Balts SIA, Gandalf Distribution AB, and ELKO Trading Malta LTD.

ELKO Grupa AS holds a majority shareholding in all of the above subsidiaries.

Financial risk management

Multi-currency risk

The Company operates internationally and is exposed to foreign exchange risks accordingly, 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 a variety of 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 US dollar and Russian rouble, 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 utilises short-term borrowing for the partial financing of its current assets. All of the 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 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 price reduction or declines in market prices.

Liquidity risk

Prudent liquidity-risk management includes maintaining sufficient cash, 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 the management of working capital.

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 financial position of the Company as at 31 March 2018.



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, 2018 and of its financial operations for the period ended 31 March 2018. 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	31.03.2018 USD'000	31.12.2017 USD'000	31.03.2018 EUR'000	31.12.2017 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		19,929	19,526	16,431	16,449
Intangible assets		583	912	473	760
Goodwill on acquisition of subsidiary		1,759	1,759	1,467	1,467
		22,271	22,197	18,371	18,676
Current assets					
Inventories		175,703	187,777	142,605	156,572
Current income tax receivable		2,822	3,765	2,291	3,140
Trade and other receivables		273,499	225,451	221,977	187,986
Derivative financial instruments		147	167	119	139
Cash deposits		1,100	1,100	893	917
Cash and cash equivalents		32,209	33,329	26,142	27,790
		485,480	451,589	394,027	376,544
Total assets		507,751	473,786	412,398	395,220
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		(799)	(3,579)	1,705	1,572
Retained earnings		89,698	87,600	69,870	68,163
		106,009	101,131	86,334	84,494
Non-controlling interest in equity		10,774	10,815	8,745	9,017
Total equity	3	116,783	111,946	95,079	93,511
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		7,465	7,269	6,058	6,061
	4	7,465	7,269	6,058	6,061
Current liabilities					
Trade and other payables		226,928	208,390	184,180	173,760
Interest-bearing loans and borrowings	4	155,471	144,508	126,184	120,493
Income tax payable		774	859	628	716
Provisions		205	208	166	174
Derivative financial instruments		126	606	102	505
		383,504	354,571	311,260	295,648
Total liabilities		390,968	361,840	317,319	301,709
Total equity and liabilities		507,751	473,786	412,398	395,220

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

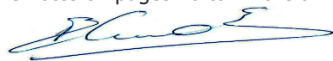


Egons Mednis
Chairman of the Board

Consolidated income statement

	Note	Jan-Mar 2018 USD'000	Jan-Mar 2017 USD'000	Jan-Mar 2018 EUR'000	Jan-Mar 2017 EUR'000
Revenue	2	325,468	248,083	264,765	232,971
Cost of sales		(306,944)	(231,703)	(249,696)	(217,588)
Gross profit		18,524	16,380	15,069	15,383
Distribution expenses		(2,254)	(2,560)	(1,833)	(2,404)
Administrative expenses		(9,281)	(6,021)	(7,551)	(5,655)
Other income		398	42	323	39
Other expenses		(804)	(2,520)	(653)	(2,365)
Operating profit		6,583	5,321	5,355	4,998
Finance income		587	609	477	572
Finance expenses		(3,338)	(3,718)	(2,715)	(3,491)
Finance income/ (expenses) – net		(2,751)	(3,109)	(2,238)	(2,919)
Profit before income tax		3,832	2,212	3,117	2,079
Income tax expense	5	(2,113)	(634)	(1,719)	(595)
Profit for the period		1,719	1,578	1,398	1,484
Attributable to:					
Equity holders of the Company		2,098	1,527	1,707	1,434
Non-controlling interest		(380)	53	(309)	50
		1,718	1,580	1,398	1,484
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	0.21	0.16	0.17	0.15
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		3,119	1,815	170	75
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		4,837	3,395	1,568	1,559
Attributable to:					
Equity holders of the Company		4,878	3,192	1,840	1,479
Non-controlling interest		(41)	203	(272)	80
		4,837	3,395	1,568	1,559

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 2017	11,114	5,996	81,827	(12,699)	86,238	6,277	92,515
Currency translation differences	-	-	-	9,120	9,120	1,815	10,935
Profit for the period	-	-	10,470	-	10,470	3,363	13,833
Total recognized income and expense for 2017	-	-	10,470	9,120	19,590	5,178	24,768
Dividend relating to prior years	-	-	(4,697)	-	(4,697)	(640)	(5,337)
Balance at 31 December 2017	11,114	5,996	87,600	(3,579)	101,131	10,815	111,946
Balance at 1 January 2018	11,114	5,996	87,600	(3,579)	101,131	10,815	111,946
Currency translation differences	-	-	-	2,780	2,780	339	3,119
Profit for the period	-	-	2,098	-	2,098	(380)	1,718
Total recognized income and expense for 2018	-	-	2,098	2,780	4,878	(41)	4,837
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2018	11,114	5,996	89,698	(799)	106,009	10,774	116,783

	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 2017	9,785	4,974	62,892	4,161	81,812	5,955	87,767
Currency translation differences	-	-	-	(2,589)	(2,589)	677	(1,912)
Profit for the period	-	-	9,271	-	9,271	2,973	12,244
Total recognized income and expense for 2017	-	-	9,271	(2,589)	6,682	3,650	10,332
Dividend relating to prior years	-	-	(4,000)	-	(4,000)	(588)	(4,588)
Balance at 31 December 2017	9,785	4,974	68,163	1,572	84,494	9,017	93,511
Balance at 1 January 2018	9,785	4,974	68,163	1,572	84,494	9,017	93,511
Currency translation differences	-	-	-	133	133	37	170
Profit for the period	-	-	1,707	-	1,707	(309)	1,398
Total recognized income and expense for 2018	-	-	1,707	133	1,840	(272)	1,568
Dividend relating to prior years	-	-	-	-	-	-	-
Balance at 31 March 2018	9,785	4,974	69,870	1,705	86,334	8,745	95,079

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

Consolidated cash flows statement

	Jan-Mar 2018 USD'000	Jan-Mar 2017 USD'000	Jan-Mar 2018 EUR'000	Jan-Mar 2017 EUR'000
Cash flows from operating activities				
Profit before tax	3,832	2,212	3,117	2,079
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	545	218	444	204
Loss on disposal of property, plant and equipment				
Interest income	(587)	(609)	(477)	(572)
Interest expenses	3,338	3,718	2,715	3,491
Fair value (gain)/losses on derivative financial instruments, net	(460)	566	(383)	508
Movements in provisions and allowances	(3)	-	(7)	-
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	(47,105)	4,995	(33,142)	8,105
Decrease/(Increase) in inventories	12,074	4,654	13,967	8,906
(Decrease) in trade and other payables	21,569	(23,593)	10,525	(28,274)
Interest received	587	609	477	572
Income tax paid	(2,113)	(634)	(1,719)	(595)
Net cash flows used in operating activities	(8,323)	(7,864)	(4,484)	(5,576)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	2	-	2	-
Purchases of property, plant and equipment and intangible assets	(619)	(381)	(139)	(311)
Net cash flows from / (used in) investing activities	(617)	(381)	(137)	(311)
Cash flows from financing activities				
Proceeds from bank overdrafts, net	11,159	4,502	5,688	2,126
Interest paid	(3,338)	(3,718)	(2,715)	(3,491)
Net cash flows (used in) / from financing activities	7,821	784	2,973	(1,365)
Net decrease in cash and cash equivalents	(1,120)	(7,461)	(1,648)	(7,252)
Cash and cash equivalents at beginning of the year	33,329	17,543	27,790	16,642
Cash and cash equivalents at end of the period	32,209	10,082	26,142	9,390

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 2018 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 2017.

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 2018, it is organized into three main geographical segments by location of customers:

(1) Latvia - country of domicile

(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.

(4) The Nordic area is Sweden. 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 2018 are as follows for USD:

	Latvia	The Nordic *	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	51,726	25,427	98,343	149,972	-	325,468
Inter-segment revenue	78,468	-	1,505	14,018	(93,991)	-
Revenue	130,194	25,427	99,848	163,990	(93,991)	325,468

** The Nordic area revenue starts from July 2017*

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

	Latvia	The Nordic *	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	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 2018 are as follows for EUR :

	Latvia	The Nordic *	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	42,079	20,685	80,001	122,000	-	264,765
Inter-segment revenue	63,833	-	1,360	12,667	(77,859)	-
Revenue	105,912	20,685	81,361	134,666	(77,859)	264,765

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

	Latvia	The Nordic *	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	23,627	-	97,490	111,854	-	232,971
Inter-segment revenue	66,401	-	287	15,295	(81,983)	-
Revenue	90,028	-	97,777	127,149	(81,983)	232,971

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 2018 are as follows:

	Latvia The	Nordic	Central and	CIS	Adjustments	Group
		*	Eastern		and	
			Europe and		eliminations	
			other			
			countries			
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Assets	237,407	24,678	83,152	367,780	(205,266)	507,751

** The Nordic area revenue starts from July 2017*

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

	Latvia The	Nordic	Central and	CIS	Adjustments	Group
		*	Eastern		and	
			Europe and		eliminations	
			other			
			countries			
	USD'000	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 2018 are as follows:

	Latvia The	Nordic	Central and	CIS	Adjustments	Group
		*	Eastern		and	
			Europe and		eliminations	
			other			
			countries			
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets	192,685	20,029	67,488	298,498	(166,303)	412,398

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

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

Notes to the consolidated financial statements (continued)

3. Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2017: 9,785 thousand shares) with a value of USD 1.1358 per share (2017: USD 1.1358 per share) and with value of EUR 1.00 per share (2017: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

4. Borrowings

	31.03.2018 USD'000	31.12.2017 USD'000	31.03.2018 EUR'000	31.12.2017 EUR'000
Non-current				
Bonds	-	-	-	-
Bank borrowings	7,431	7,233	6,031	6,031
Finance lease liabilities	34	36	27	30
	7,465	7,269	6,058	6,061
Current				
Bank borrowings	155,447	144,470	126,164	120,461
Other borrowings	-	-	-	-
Finance lease liabilities	24	38	20	32
	155,471	144,508	126,184	120,493
Total borrowings	162,936	151,777	132,242	126,554

As at 31 March 2018, the undrawn credit facilities amount to **USD 63 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 2018 is 55% (the estimated tax rate for 3 months ended 31 March 2017 was 28.6%). 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-Mar 2018 USD'000	Jan-Mar 2017 USD'000	Jan-Mar 2018 EUR'000	Jan-Mar 2017 EUR'000
Profit attributable to equity holders of the Company	2,098	1,527	1,707	1,434
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings (USD and EUR per share)	0.21	0.16	0.17	0.15

7. 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 2018, 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 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 31 March 2018.