



ELKO GROUP AS

Unaudited Consolidated Financial Statements
For 6 months ended 30 June 2016

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AS ELKO Grupa Management report on interim consolidated financial statements for the 6 month period ended 30 June 2016

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 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.

Financial analysis

ELKO Grupa AS turnover in the first half of 2016 has reached USD 541.5m (EUR 485,3m) that constitutes 5.3% increase from the corresponding period in 2015. Gross margin reached USD 25.4m (EUR 22.8m) that is increase by 0.5% comparing to prior year. The increase in turnover and gross margin demonstrates the Company's ability to adjust to challenging market environment by shifting the focus to growing business segment.

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 the increased trade volumes in 2016.

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 Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., WESTech CZ s.r.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine TOB, Alma OOO and ELKO Kazakhstan Limited.

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 local currencies that are pegged to the euro. 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 2016 the Company extended the current syndicate creditline and added new syndicate member OP Bank with additional USD 15M credit facility. The total credit facility from the syndicate now amounts to USD 78M. 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 2016.



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, 2016 and of its financial operations for the period ended 30 June 2016. 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	30.06.2016 USD'000	31.12.2015 USD'000	30.06.2016 EUR'000	31.12.2015 EUR'000
ASSETS					
Non-current assets					
Property, plant and equipment		2,144	1,479	1,931	1,358
Intangible assets		440	438	396	402
Long term loans		3,799	3,730	3,426	3,426
		6,383	5,647	5,753	5,186
Current assets					
Inventories		243,774	222,146	219,577	204,047
Current income tax receivable		3,611	2,471	3,253	2,270
Trade and other receivables		85,135	116,569	76,680	107,072
Derivative financial instruments		86	2,666	78	2,449
Cash deposits		660	-	594	-
Cash and cash equivalents		23,942	31,958	21,566	29,354
		357,208	375,810	321,748	345,192
Total assets		363,591	381,457	327,501	350,378
EQUITY					
Capital and reserves attributable to 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		(9,913)	(11,884)	2,575	2,281
Retained earnings		75,980	79,114	57,586	60,429
		83,177	84,340	74,920	77,469
Non-controlling interest in equity		12,002	13,499	10,811	12,399
Total equity	3	95,179	97,839	85,731	89,868
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	4	8,929	8,778	8,043	8,063
		8,929	8,778	8,043	8,063
Current liabilities					
Trade and other payables		198,249	195,599	178,570	179,662
Interest-bearing loans and borrowings	4	57,975	76,840	52,221	70,580
Income tax payable		2,912	2,401	2,623	2,205
Derivative financial instruments		347	-	313	-
		259,483	274,840	233,727	252,447
Total liabilities		268,412	283,618	241,770	260,510
Total equity and liabilities		363,591	381,457	327,501	350,378

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-Jun 2016 USD'000	Jan-Jun 2015 USD'000	Jan-Jun 2016 EUR'000	Jan-Jun 2015 EUR'000
Revenue	2	541,515	514,388	485,256	461,023
Cost of sales		(516,111)	(489,109)	(462,491)	(438,389)
Gross profit		25,404	25,279	22,765	22,634
Distribution expenses		(2,424)	(2,214)	(2,172)	(1,984)
Administrative expenses		(10,771)	(9,177)	(9,651)	(8,224)
Other income		210	213	187	201
Other expenses		(2,388)	(82)	(2,140)	(64)
Operating profit		10,031	14,019	8,989	12,563
Finance income		203	189	182	172
Finance expenses		(5,101)	(4,887)	(4,571)	(4,380)
Finance income/ (expenses) – net		(4,898)	(4,698)	(4,389)	(4,208)
Profit before income tax		5,133	9,321	4,600	8,355
Income tax expense	5	(809)	(615)	(725)	(552)
Profit for the period		4,324	8,706	3,875	7,803
Attributable to:					
Equity holders of the Company		2,966	5,185	2,657	4,647
Non-controlling interest		1,358	3,521	1,217	3,156
		4,324	8,706	3,874	7,803
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	0.30	0.75	0.27	0.68
Other comprehensive income to be reclassified to profit loss in subsequent periods					
Exchange differences on translation of foreign operations		2,086	(5,769)	144	922
Total comprehensive income to be reclassified to profit loss in subsequent periods for the year		6,410	2,937	4,018	8,725
Attributable to:					
Equity holders of the Company		2,966	5,185	2,657	4,647
Non-controlling interest		1,358	3,521	1,217	3,156
		4,324	8,706	3,874	7,803

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 2015	11,114	5,996	66,573	(5,185)	78,498	8,593	87,091
Currency translation differences	-	-	-	(6,699)	(6,699)	(618)	(7,317)
Profit for the period	-	-	12,541	-	12,541	9,300	21,841
Total recognized income and expense for 2015	-	-	12,541	(6,699)	5,842	8,682	14,524
Dividend relating to prior years	-	-	-	-	-	(3,776)	(3,776)
Balance at 31 December 2015	11,114	5,996	79,114	(11,884)	84,340	13,499	97,839
Balance at 1 January 2016	11,114	5,996	79,114	(11,884)	84,340	13,499	97,839
Currency translation differences	-	-	-	1,971	1,971	115	2,086
Profit for the period	-	-	2,966	-	2,966	1,358	4,324
Total recognized income and expense for 2016	-	-	2,966	1,971	4,937	1,473	6,410
Dividend relating to prior years	-	-	(6,100)	-	(6,100)	(2,970)	(9,070)
Balance at 30 June 2016	11,114	5,996	75,980	(9,913)	83,177	12,002	95,179

	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 2015	9,785	4,974	49,125	771	64,655	7,078	71,733
Currency translation differences	-	-	-	1,510	1,510	390	1,900
Profit for the period	-	-	11,304	-	11,304	8,382	19,686
Total recognized income and expense for 2015	-	-	11,304	1,510	12,814	8,772	21,586
Dividend relating to prior years	-	-	-	-	-	(3,451)	(3,451)
Balance at 31 December 2015	9,785	4,974	60,429	2,281	77,469	12,399	89,868
Balance at 1 January 2016	9,785	4,974	60,429	2,281	77,469	12,399	89,868
Currency translation differences	-	-	-	294	294	(150)	144
Profit for the period	-	-	2,657	-	2,657	1,217	3,874
Total recognized income and expense for 2016	-	-	2,657	294	2,951	1,067	4,018
Dividend relating to prior years	-	-	(5,500)	-	(5,500)	(2,655)	(8,155)
Balance at 30 June 2016	9,785	4,974	57,586	2,575	74,920	10,811	85,731

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

Consolidated cash flows statement

	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
	USD'000	USD'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before tax	5,133	9,321	4,600	8,355
Adjustment to reconcile profit before tax to net cash flows				
Depreciation and amortization	363	252	325	225
Interest income	(203)	(1,538)	(182)	(172)
Interest expenses	5,101	4,887	4,571	4,380
Fair value (gain)/losses on derivative financial instruments, net	2,927	(669)	2,684	(565)
Movements in provisions and allowances	-	(4)	-	8
Working capital adjustments:				
Decrease/(Increase) in trade and other receivables	30,294	(52,438)	29,409	(54,718)
Decrease/(Increase) in inventories	(21,628)	85,982	(15,530)	60,218
(Decrease) in trade and other payables	2,688	(43,606)	(2,778)	(16,716)
Interest received	203	1,538	182	172
Income tax paid	(809)	(1,852)	(725)	(1,633)
Net cash flows used in operating activities	24,070	1,873	22,556	(446)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	53	20	47	18
Purchases of property, plant and equipment and intangible assets	(1,030)	(471)	(892)	(421)
Proceeds from cash deposits	(660)	436	(594)	391
Net cash flows from / (used in) investing activities	(1,637)	(15)	(1,440)	(12)
Cash flows from financing activities				
Proceeds from bank overdrafts, net	(18,714)	(17,382)	(18,379)	(10,288)
Dividends paid to equity holders of the parent	(3,664)	(451)	(3,300)	(399)
Dividends paid to the Minority shareholders	(2,970)	(845)	(2,655)	(774)
Interest paid	(5,101)	(4,887)	(4,571)	(4,380)
Net cash flows (used in) / from financing activities	(30,448)	(23,565)	(28,905)	(15,841)
Net decrease in cash and cash equivalents	(8,016)	(21,707)	(7,789)	(16,299)
Cash and cash equivalents at beginning of the year	31,958	38,197	29,354	31,462
Cash and cash equivalents at end of the period	23,942	16,490	21,565	15,163

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 2016 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 2015.

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 2016, 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 2016 are as follows for USD:

	The Baltic	Central and Eastern Europe	CIS and other countries	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 2015 are as follows for USD:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	41,613	162,800	309,975	-	514,388
Inter-segment revenue	108,003	132	31,209	(139,344)	-
Revenue	149,616	162,932	341,184	(139,344)	514,388

The segment results for 6 months ended 30 June 2016 are as follows for EUR :

	The Baltic	Central and Eastern Europe	CIS and other countries	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

The segment results for 6 months ended 30 June 2015 are as follows for EUR :

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	37,295	145,905	277,823	-	461,023
Inter-segment revenue	96,795	118	27,970	(124,883)	-
Revenue	134,090	146,023	305,793	(124,883)	461,023

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 2016 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	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 2015 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets	178,830	76,443	245,384	(162,943)	337,714

The segment assets as at 30 June 2016 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	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

The segment assets as at 30 June 2015 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets	159,827	68,320	224,760	(151,103)	301,804

Notes to the consolidated financial statements (continued)

3. Share capital

The total authorised and issued number of ordinary shares is 9,758 thousand shares (2015: 9,758 thousand shares) with a value of USD 1.1358 per share (2015: USD 1.1358 per share) and with value of EUR 1.00 per share (2015: EUR 1.00 per share). All issued shares are fully paid. There are no share options in any of the years presented.

4. Borrowings

	30.06.2016 USD'000	31.12.2015 USD'000	30.06.2016 EUR'000	31.12.2015 EUR'000
Non-current				
Bonds	8,872	8,709	8,000	8,000
Finance lease liabilities	57	69	43	63
	8,929	8,778	8,043	8,063
Current				
Bank borrowings	57,949	76,786	52,198	70,531
Other borrowings	-	-	-	-
Finance lease liabilities	26	54	23	49
	57,975	76,840	52,221	70,580
Total borrowings	66,904	85,618	60,264	78,643

As at June 30, 2016 the undrawn credit facilities amount to USD 32M.

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 2016 is 15.7 % (the estimated tax rate for 6 months ended 30 June 2015 was 6.6 %). 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 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-Jun 2016 USD'000	Jan-Jun 2015 USD'000	Jan-Jun 2016 EUR'000	Jan-Jun 2015 EUR'000
Profit attributable to equity holders of the Company	2,966	5,185	2,657	4,647
Weighted average number of ordinary shares in	9,785	6,877	9,785	6,877
Basic earnings (USD and EUR per share)	0.30	0.75	0.27	0.68

7. Related party transactions

The Company has entered into an agreement with related party AST BALTS for rent of warehousing and office space. ELKO Group AS issued a loan to AST BALTS.

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 30 June 2016, 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 2016 the Company extended the current syndicate creditline and added new syndicate member OP Bank with additional USD 15M credit facility. The total credit facility from the syndicate now amounts to USD 78M. 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 2016.